FIELD HEARING IN SOUTH CAROLINA: GETTING RURAL AMERICA BACK TO WORK: SOLUTIONS TO LOWER UNEMPLOYMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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GETTING RURAL AMERICA BACK TO WORK: SOLUTIONS TO LOWER UNEMPLOYMENT

FRIDAY, JANUARY 24, 2014

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:00 p.m., in the Multi-Purpose Room, Dillon Wellness Center, 1647 Commerce Drive, Dillon, South Carolina, Hon. Tom Rice [Chairman of the Subcommittee] presiding.

Present: Representative Rice

Also Present: Former Representative Robin Tallon

Chairman RICE. Good afternoon.

AUDIENCE. Good afternoon.

Chairman RICE. I want to thank everybody so much for being here today. What a great crowd we have, we have people from all over the district. I know I saw people from Chesterfield County, I saw people from Horry County, I saw people from Marion County and people from Florence County. So we have got people from all over the district. And what an honor that you would take time out of your day to come and learn more about economic development in rural counties. I appreciate very much your participation.

You know, we can hold all the hearings we want to, we can get the brightest people in the world here, but if nobody is here to learn, it does not accomplish anything. And if we do not work together, nothing is going to happen. And I appreciate very much all of y'all taking your time to do this.

I would especially like to thank each of our witnesses for taking time out of their undoubtedly busy schedules to provide testimony on ways we can all work together to lower unemployment in our rural communities and grow the economy. We have an excellent panel of local leaders, experts, and folks who know how to create jobs and I am looking forward to their testimony and their discussion.

Ladies and gentlemen, we are mired in the worst recovery from a recession since World War II. The great recession ended in June of 2009—so they say. That was 54 months ago. Since the end of the downturn, we have seen tepid GDP growth, uneasy economic conditions, uncertainty all around the marketplace, and a lagging labor market. By most accounts, our economy has not recovered—quote-unquote—recovered in those 54 months, not even close.

What do you say here in Dillon County?

VOICES. Not close.

Chairman RICE. Anybody who follows it closely must have serious concerns about whether the country is on the right track. Our economy is large and complex with many factors influencing its trajectory. As we examine these factors, we must take a hard look at the policies coming out of Washington and determine what we can do differently and better, because I will tell you, Washington is a big part of the problem.

Take for instance, the most recent jobs report coming from Washington. By November of 2013, the country was still 1.3 million jobs short of its pre-recession peak. In December, however, only 74,000 jobs were created in this country. That is 130,000 less than the month before. While the national unemployment rate dropped to below seven percent for the first time in five years, it was only because 374,000 people simply gave up and left the workforce. They gave up because they just could not find work. This is absolutely unacceptable. Clearly we must do better.

One of those places where we need to do better is in our rural communities with the stubbornly high levels of unemployment. As a sector of the economy rural areas, particularly right here in northeastern South Carolina have significantly higher levels of unemployment when compared to urban areas. For instance, right here in Dillon County, the unemployment rate is 10.4 percent. That is almost 50 percent higher than the national average. It is even worse in neighboring Marion County where it stands at 13.1 percent. When you compare that to those of Charleston or Greenville areas at 5.5 percent, the dichotomy becomes more troubling.

With new technology, rural communities have the capability to be connected to the world economy in ways not previously encountered—from high speed internet to participation in international trade. By identifying what impediments rural counties face, we can work together to remove those obstructions and get our rural economies growing along with their more urban brethren.

Various studies conducted by organizations such as the United States Chamber of Commerce and the National Federation of Independent Business continuously point to high levels of taxation, regulation and a general uncertainty about where the economy is going, as a significant impediments to growth.

I believe we have a real opportunity to enact changes to give local economies and small businesses the tools they need to lead an economic revival. Government does not create jobs or produce long-term economic growth—the private sector does. The faster Washington releases the reins, the faster we will see America back on the job and our nation back on the path to economic prosperity.

Again, I would like thank each of you for taking time to provide my subcommittee with testimony. I am really looking forward to it. What I am going to do is introduce each of my panelists individually and they will have five minutes to present their testimony.

Before I do that, I want to introduce to y'all, my friend, former Congressman Robin Tallon. Robin served in the old Sixth District, which is essentially the same district that I have. I know most everybody in the room knows Robin and I asked him if he would sit on this panel with me today.

Mr. TALLON. Thank you, Congressman.

Chairman RICE. Thank you. It is my honor. Do you want to say a couple of words?

Mr. TALLON. Tom, thank you.

For me, it is good to be home. I grew up in this county, in Lakeview and in Dillon, and have long been concerned both while having the privilege to serve in the United States Congress and since, about a situation where we just have not seen the economic growth in these rural counties, whether it is Marion or Marlboro or Chesterfield and Dillon.

And I am just so delighted at the leadership our Congressman has shown in bringing this hearing here in Dillon and I want to thank all of the citizens that are interested and involved and care deeply about our rural Pee Dee counties and, of course, the presenters here today who are going to give us some insight and ideas on things that we might look forward to.

And again, Tom, I cannot thank you enough for your leadership and for reaching out and caring for areas like these rural counties. Thank you so much.

Chairman RICE. Thank you, my friend.

All right, panelists, I will be quite lenient on your time limit as we are all friends here. And besides, nobody is here to tell me that I cannot.

[Laughter.]

Chairman RICE. After y'all finish, we will begin questions and discussion, in the discussion portion of the hearing. With that, I would like to introduce our first witness, Richard Kaglic, Senior Regional Economist at the Federal Reserve Bank of Richmond. Before I proceed with his introduction, I have to tell y'all, I was speaking with Congressman Tallon and Mr. Kaglic—it's Kaglic, right?

Mr. KAGLIC. Kaglic.

Chairman RICE. Kaglic. Before the meeting, and Congressman Tallon said he grew up across the street from Ben Bernanke and I said, "Did you teach him how to balance his checkbook because it has not been balanced in awhile."

[Laughter.]

Mr. TALLON. Above my ability.

Chairman RICE. Mr. Kaglic joined the research department in 2009 and is responsible for analyzing regional economic conditions and developments as well as educating the region's diverse constituents on the role of the Federal Reserve and its district banks.

Prior to joining the Richmond Fed, Mr. Kaglic served as senior economist for Eaton Corporation, a diverse manufacturing firm headquartered in Cleveland, Ohio; as chief economist for the Washington State Employment Security Department; and spent 11 years as senior business economist for the Federal Reserve Bank of Chicago. He served in leadership roles in Chicago and Cleveland Association for Business Economics, and has provided economic analysis for the Governor's Economic Advisory Council in four states.

He completed both is undergraduate and graduate work at Youngstown State University, with specializations in regional and urban economics.

Thank you for being here, Mr. Kaglic. Please begin, sir.

STATEMENTS OF RICHARD KAGLIC, REGIONAL ECONOMIST, FEDERAL RESERVE BANK OF RICHMOND, CHARLOTTE, NORTH CAROLINA; CHUCK BUNDY, DEPUTY DIRECTOR, SMALL BUSINESS AND EXISTING INDUSTRY, SOUTH CAROLINA DEPARTMENT OF COMMERCE, COLUMBIA, SOUTH CAROLINA; JOE JACOBS, SENIOR VICE PRESIDENT OF OPERATIONS, SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP, COLUMBIA, SOUTH CAROLINA; BEN CHASTAIN, DIRECTOR, DUKE ENERGY CENTER FOR INNOVATION, HARTSVILLE, SOUTH CAROLINA; JEFF McKAY, EXECUTIVE DIRECTOR NORTH EASTERN STRATEGIC ALLIANCE, FLORENCE, SOUTH CAROLINA

STATEMENT OF RICHARD KAGLIC

Mr. KAGLIC. Good afternoon and thank you, Mr. Chairman. It is certainly an honor to be asked to speak before the Subcommittee this afternoon regarding the economic outlook.

I will be focusing my comments today. I will want to share with you some of my thoughts on economic conditions nationally as well as here in South Carolina. And I do want to be careful to say that these views are my own and do not represent those of my colleagues at the Federal Reserve System.

As you alluded to a little earlier, we are talking about economic indicators. Some of the economic indicators that we have been seeing recently have come in a little better than expected. Most notably, gross domestic product, the unemployment rate at 6.7 percent. So, gross domestic product is our measure, our best measure, of total output of goods and services in the economy. And in the third quarter, it expanded at a pace of better than four percent, which is about as good as we have seen in two years. And the unemployment rate came down to about 6.7 percent, that is the lowest it has been since October of 2008. With relatively solid readings in measures of consumer and business confidence, as well as some of the significant gains that we saw in equity markets over the course of 2013, many economic forecasters are predicting that we are finally going to see a breakout of this low-trajectory GDP growth rate that has been the norm since this recovery got underway.

I, however, do not see sufficient evidence that suggests that a more robust economic expansion is on the near-term horizon. I think when we start to look down a little deeper into the data included in gross domestic product and the unemployment rate, there are still signs that growth is going to be constrained as we move forward. And more importantly, when we look at some of the economic fundamentals that typically drive economic growth, they do not appear to be materially different than what has dominated since this recovery got underway. So these factors have tempered my own outlook, which calls for basically a continuation of recent trends. That is, relatively sluggish output growth accompanied by these modest improvements that we have been seeing in labor markets.

Here in South Carolina, I think our economic prospects are a little brighter than the national average but at the same time, at the end of the day, I do not believe that the state, nor any other state for that matter, can completely escape the gravitational pull of

some of the drags that are weighing on the national economy. So for that reason, I am going to begin by talking about some of those economic—national economic conditions.

So, first, let us take a closer examination of that third quarter GDP report. If you delve down into the details, you will find that the acceleration growth from the second quarter to the third quarter, was largely a function of inventory accumulation. So what that means is that firms were building stuff that they had not yet sold. If that is indeed the case, what that means as we move forward is that firms will now have to readjust their production schedule to get those inventories back in line with their sales expectations. That being the case, domestic demand in the third quarter, was not nearly as robust as what was being reflected in those top line gross domestic product numbers.

Now one of the reasons for that is something that we see being reflected in household spending. Personal consumption expenditures make up the majority of gross domestic product in the United States, accounting for about 70 percent. And throughout the course of this economic expansion, the increases in real personal consumption expenditures have been averaging about 2.2 percent, which is very weak when you compare it to recoveries from prior deep recessions, such as those in the mid-1970s and again in the early 1980s.

Now some analysts have pointed out that fourth quarter spending appears to have picked up. And that is certainly the case. But at the same time, when you take a look at real disposable income growth—so this is income adjusted for inflation and for taxes—that growth has remained relatively weak. Now at the end of the day when households make their decisions on spending, they are basing their spending decisions based on what they are earning today and what they expect to be earning in the future. With little evidence to suggest that that real income growth is about to break out and grow any faster, my own expectations for personal consumption expenditures growth is basically what we have been seeing over the past couple of years. That is, roughly two percent.

So, if you have got 70 percent of your economy growing at two percent, where is the other marginal growth going to come from? Well, some people look to the housing markets and certainly the housing markets are recovering but at the same time, they only account for about three percent of gross domestic product these days, and while the housing recovery continues into 2014, it is likely to do so at a slower pace than what was the case in 2013, if for no other reason than mortgage interest rates are higher.

Now businesses continue to report firming demand for the goods and services that they provide, but at the same time, they are only increasing their investment in equipment and software moderately, and one of the big factors driving that growth is uncertainty in the economy, some of which you alluded to earlier. But that uncertainty emanates from how strong the economic recovery is going to be, the pathway for monetary policy, the short-term tax and regulatory issues, as well as our longer-term fiscal imbalances.

But whatever the driver of that uncertainty, it seems that that uncertainty is not just affecting business investment decisions, it is also affecting hiring decisions. As you mentioned, we are now four and a half years into this economic recovery, we have not yet recov-

ered all of the jobs that were lost. Same is true here in South Carolina. In fact, in South Carolina, as a percentage of total employment, we actually lost more jobs than the rest of the nation. So even while we have seen, over the course of the last year, jobs growth has basically exceeded the national average here in South Carolina, we still have a longer ways to go before we are back to pre-recession levels of employment because we fell deeper into the hole.

Now the unemployment rate, I mentioned the unemployment rate currently is at its lowest level since 2008, but there are certainly still plenty of signs of duress to be seen. One of them you alluded to, labor force participation. It has declined through the recession, it continued to decline through the recovery to the point where today we are looking at labor force participation rates in the United States as low as we have seen them since the late 1970s or early 1980s. South Carolina, similar trends. We see the unemployment rate coming down. In fact, we are within one-tenth of the national average right now, which is quite a development when you consider that at the worst of the recession we were two percentage points above the national average. But like the rest of the nation, we have seen—accompanying that improvement in the unemployment rate, we have seen a decline in labor force participation. Of the 40 counties in South Carolina for which there was a decrease in unemployment year over year in November, 34 of them saw an accompanying decline in labor force participation.

Ultimately, your economy can only grow as fast as your labor inputs and changes in productivity will allow it to grow. Admittedly it is very difficult to predict changes in labor force participation and productivity, but the dynamics driving those have not changed recently. So that being the case, the most likely outcome for output growth in 2014 is something similar to what we have seen, that two percent or a little bit above that. And that is going to be accompanied by sustained but modest increases in payroll employment and a continuing downward trend in the unemployment rate.

The outlook for South Carolina is a little better than the national average, owing in part to its low cost of doing business and positive migration trends, as well as some of the recent high-profile successes like Boeing, Continental, Bridgestone and others. But at the end of the day, it too will be hampered by some of those factors that are weighing on economic conditions nationally.

With that, I thank you for the time and the privilege of testifying today.

Chairman RICE. Thank you, sir.

Up next is Chuck Bundy, Deputy Director for Small Business and Existing Industry with the South Carolina Department of Commerce. Do they not do a great job—my goodness.

In this role, he oversees small business and existing industry strategy, resource support and company outreach, all designed to increase the growth and competitiveness of South Carolina businesses. He has been with the South Carolina Department of Commerce for 24 years and prior to that, he spent nine years in commercial banking in North Carolina.

Mr. Bundy currently serves on the South Carolina Chamber of Commerce Manufacturers Steering Committee, their Small Busi-

ness Council, and represents the Department of Commerce on the University of South Carolina-Columbia Technology Incubator Board.

He received his B.A. in economics and business administration from Furman University and his M.B.A. from the University of South Carolina.

Thank you for taking the time to be with us today, Mr. Bundy.

STATEMENT OF CHUCK BUNDY

Mr. BUNDY. Thank you, Chairman Rice.

The Department of Commerce respects and appreciates the Subcommittee's interest in small business and small business in rural South Carolina. Thank you for this opportunity, and to your staff too, they do a great job.

The 2010 census showed that about 33 percent of South Carolinians live in rural areas of this state. Small business is an integral part of South Carolina's economy in employment, wages, investment and revenue, and equally so for rural South Carolina.

What I want to do with the following initiatives is talk about some that typify the things that the agency and the state are doing to encourage small business development in rural South Carolina.

Commerce begins by looking at structural elements for small business success. These are the same for any business, including rural South Carolina:

General business planning
New business development
Financing
Operations
Workforce
Regulations.

Our agency seeks to connect programmatic support for these basic elements with the small business community.

First, Commerce established the Small Business Advisory Council, which was set up to help coordinate statewide support for small business. These are organizations that are engaged daily with small business. They are:

The SBA, Small Business Administration
The USDA
The Small Business Development Centers
Manufacturing Extension Partnership
Michelin Development Corp.
And of course the Department of Commerce.

Important groups that help us guide what we do based on what is going on with the small business community.

We provide direct assistance to small businesses and fielded over 500 inquiries from companies, small businesses, throughout the state of South Carolina this past year. Fifteen percent of those were from rural South Carolina counties.

The BuySC Program is specifically oriented toward buyer/supplier matching, helping the larger OEM in Tier 1 and Tier 2 countries meet small businesses and vice versa, those small businesses who need those larger ones. We keep a database of those companies, 23 percent of those companies in the database are from rural South Carolina counties.

Thanks to the Fed, we have had a series of successful lender matchmaker sessions across the state. We held one in the Florence area. And these are just an opportunity for—well, let us just call it speed dating between small businesses and lenders, a chance to put them together. Twenty-one rural counties were represented in that effort, seven of those across the state.

Access to small business information is an issue, and it is an issue for rural South Carolina as well. We created the SCBIZNetwork, which is an interactive website with a lot of resources, like a resource finder helping companies wherever they are, whatever they are, find specific resources they need. We have got a calendar of events, over 500 and something small business events held throughout the state this past year. It also houses our BuySC program, a Q&A section and access to the Small Business Regulatory Review Committee. The point is, we are trying to be intentional about providing access to rural South Carolina.

The State Trade and Export Promotion Program is one of the SBA programs to help small businesses penetrate foreign markets with goods and services. Two years into that program, we have helped 59 small companies enter 24 different markets resulting in $3.7 million in export sales. Fourteen percent of those companies are located in rural South Carolina. We are interested in rural South Carolina.

Small businesses and rural communities quickly feel a plant layoff or closure. They also quickly feel new economic development projects that come to fruition. The Department of Commerce provides rural counties with financial support for speculative buildings, industrial park development, site certification, and even redevelopment in downtown areas. If you do not have product, nobody is coming—important area.

We also recently just established the Office of Innovation where we are looking at ways to improve capital access and also ways to promote faster innovation among South Carolina companies.

Partners—we partner closely with the Small Business Development Centers. We consider them a gateway provider, frontline technical, face-to-face business assistance. We got a grant that we provided to them for expressly providing assistance to rural communities. It is just from Commerce.

Other partner is the Manufacturing Extension Partnership. We have got a great partnership with a group that provides technical, production, and process support for South Carolina's small and mid-size business communities. We love these guys, they are a positive game changer, particularly for the small manufacturing community in South Carolina and in rural South Carolina.

So areas for federal consideration, I would just mention a couple in closing. We think that consideration and perhaps better recognition and support of the small business development centers and the SCMEP should be considered. They are frontline groups, they have a comprehensive offering and they are set up to cover rural South Carolina.

And with great appreciation and respect, regulatory burden. All federal agencies should continue to examine their regulations for adverse impact on small business. Quite frankly, probably not

enough attention is going to that area. Some examples are enclosed in the written testimony.

Small business is vitally important to South Carolina. Small business in rural South Carolina is vitally important to South Carolina.

Thank you, Mr. Chairman, for your time and interest and this concludes my testimony.

Chairman RICE. Thank you, Mr. Bundy.

Our third witness is Joe Jacobs, Senior Vice President of Operations at the South Carolina Manufacturing Extension Partnership.

He has been with the South Carolina Manufacturing Extension Partnership for nearly 14 years. He is a certified Lean trainer, professional business advisor, a certified Black Belt in innovation engineering. Mr. Jacobs has more than 40 years of manufacturing experience in various industries. He has been consistently successful in introducing strategic plans, manufacturing management practices and operating concepts that have supported the highest levels of efficiency and productivity and has been a key member of five separate management teams that successfully launched startup operations in the United States and Canada.

Mr. Jacobs earned his bachelor's degree in psychology from the University of North Carolina and a master of science degree in administration from Central Michigan University.

Welcome to our Subcommittee, Mr. Jacobs. You may begin your testimony.

STATEMENT OF JOE JACOBS

Mr. JACOBS. Thank you very much, Mr. Chairman. It is a pleasure to be in Dillon and it is always good to see you again.

A lot of other people, when they think of SCMEP, one of the first questions that come to mind is who are those guys. Although we have been around since 1989, we still go places where people do not know who we are and what we do and we try to do a lot of education to correct that.

MEP was started in 1989. Senator Fritz Hollings out of Charleston was kind of the father of the group during the initial days. South Carolina was one of the first three in the nation to get started. In order to have an MEP, each state had to agree to provide some type of support, so our model over the years has been kind of a third federal, a third state, and we had to generate about a third in order to survive. That has changed a little bit over the years but we were established particularly to provide services to small and medium-sized manufacturers and make them more competitive globally. And we do that in a number of ways.

One of the things that we like to do initially going into an operation, is to learn as much about the company as we can. We definitely do what we call a competitiveness review and it's an assessment of the systems of the company, kind of model idea of the systems of the company that was developed in South Carolina, the methodology of utilizing that tool. Other MEPs, there is about 14 other MEPs in the nation that decided they wanted to use it, they actually pay us a licensing fee in order to use it.

The competitiveness review is not very time consuming, but we can go into a facility and within—part of the survey, the assessment, they can do online, but once we get to a facility, it takes us about four hours on site and we like to follow the process from entry through shipping. We will go back and put our heads together and come up with a plan based on what has been successful in the past and come up with about three or four recommendations that we know if they take those and move forward with it, they are going to be successful.

The areas that we particularly concentrate on is continuous improvement, workforce development, supply chain acceleration, sustainability. The services that we provide in those areas range from one end of the spectrum to the other. Like we take a look at the assessment, maybe 9.2 out of every 10 that we do, have a tendency to take those and move forward with it. Everything that we do with a company is—we do not do it if it is not measurable and every three months we go through a round of surveys that is done by the National Institute of Standards and Technology. We utilize a third party resource to do it.

Typically, about six months after we complete a project with a company, they will get a call to see did they do what they said they were going to and if they did, what was the impact on the bottom line. I do not have our 2013 results yet, it will be about another month or so before those come in.

But in 2012, we had a financial impact on new and retained sales of $170 million; a cost savings of $14.4 million; capital investment, $50.4 million and jobs created or retained, 1792. When we look at each one of those numbers, there is a ripple effect on jobs created. For every one job created, there is another one that is a spinoff somewhere.

When you look at it, if it is in a manufacturing facility, the average wage for someone in manufacturing now is close to $46.000. The average wage in all other sectors together is around $35,000. So there is a huge difference there. That is where the true—that is where wages came from years ago, from the manufacturing sector. That is what we try to do is get back there.

There was one company, as a matter of fact, I think we made a visit there, but about six months ago, we started with the president of the company, he was getting ready to go through one of the NIST surveys and he made a comment to me, he said you know, when I first started working with you, we were sort of inefficient. But if you guys had not came in, the plant would not be here now.

Chairman RICE. Are you talking about the one we went through?

Mr. JACOBS. Yes. And that company is within 15–20 minutes from here.

We worked closely with a lot of the other agencies in this state. Mr. Bundy and I, in addition to getting support from the federal government, the DOC, we work with them, get some support from the state but we work in the Existing Industry Program with the DOC and what we are doing there is going out visiting firms. Mr. Bundy and his staff will go out, letters are sent out to manufacturers and we go out and make visits on behalf of the DOC, but at the same time we get a chance to tell them who we are, what we do.

We also work with the Department of Employment and Workforce, and they get funds from the DOL every year. Twenty percent of what they get from the DOL is to work with incumbent workers, 20 percent of those funds goes to what they call layoff aversion. And the layoff aversion, last year, we went into I think it was 33 companies. Typically when we go into a company on layoff aversion, they are about to close the doors. We saved 28 of those through new sales and helping them improve efficiency, 28 companies, a lot of them in rural South Carolina. So that is one program that we want to make sure that we continue to stay on top of.

One of the other things that MEP, we are a small group, there is only 21 of us and about 60 percent of what we do project-wise, we use third party experts to do it. So we do not do it all ourselves, we have got five or six people that go out and do the hands-on work but we do utilize a lot of third party resources. Typically in any different year, we use third party resources.

Two years ago, I added on two additional folks, regional vice presidents, we have seven in the state now. Up until two years ago, one person covered 26 counties and those 26 was right in this region. So you did not get a chance to see that person very much. Right now, we have got seven and the person that covers this area covers from Richmond to Marion. So we are doing everything we can helping the small guys. About 75 percent of the manufacturers in South Carolina are under 50 employees, and there is a lot of opportunity there if they know what is available to them. A lot of people claim they cannot do business with the government because they are in Dillon or they are in Marion. You can do business there, you have just to know how to get qualified to do business with them.

What the federal government can do to help the MEPs be successful and be around for many years to come and help companies in rural America continue to grow, the mission that we initially had and still have is to work with small and medium sized manufacturers to help them become more competitive globally. The one thing that works against that is the fact that in order to receive a dollar from the federal government, we have got to show we spent three. And instead of being measured on merits, that encourages us to try to be profitable. So we do not get a chance to spend as much time as we would like with the smaller guys.

It would be like an increase in what we get revenue-wise, through a grant from the federal government, if it was a one-to-one match instead of three to one.

That concludes my testimony and I think for the opportunity to speak.

Chairman RICE. Thank you, Mr. Jacobs.

One of the misfortunes is that the crowd has a disadvantage because you cannot see these people's faces when they are talking to you. But you should see the pride in his eyes when he is talking about what he has accomplished with these South Carolina companies. And I have been through one of his companies with him and let me tell you, they were very, very thankful.

Our next witness is Ben Chastain, Director of the Duke Energy Center for Innovation which serves as an incubator of local technology companies. Developed to support and diversify Hartsville's

economy, the center helps newly established enterprises find the needed resources and knowledge base to help them transform technology ideas into successful businesses.

Prior to joining the center, Mr. Chastain worked for Coker College for two years as director of their students in free enterprise program. During his tenure there, he started their entrepreneurship education initiative.

He is a graduate of Coker College with a degree in management and is currently finishing his M.B.A. at Francis Marion University.

Thank you for being with us today, Mr. Chastain. Please begin your testimony.

STATEMENT OF BEN CHASTAIN

Mr. CHASTAIN. Thanks, Chairman, and thank you for allowing me to speak today.

I am going to talk about, of course, the Duke Energy Center for Innovation and how it is directly impacting the Pee Dee region. We are located in Hartsville, downtown storefront. As you mentioned, our goal is focused on supporting and fostering new technology company formation in our region.

On our website, wherever you look, we look at about a 50-mile radius, but with the hybrid technology we are using through the Clemson partnership, we can service the entire region.

Partners involved with this, of course, the Duke Energy Foundation is one of our primary funders, a local foundation in Hartsville; the City of Hartsville; and of course, Clemson University. This is a pilot program, a three-year pilot that has come out of Clemson's research team and the development office. It was developed by Karl Kelly, who is the director of commercialization and technology incubation at Clemson.

When looking at some statistics, the 2010 census and SBA numbers, 65 percent of all jobs are created by emerging companies, small emerging companies, employing in between one and 499, 500. What we are trying to do in Hartsville and for the surrounding areas with this pilot program with Clemson is be one of five technology centers across the state. There are currently three that are open, one is ours in Hartsville, the other in Bluffton, South Carolina and the third being in Rock Hill, with two more to be named this quarter 2014.

But what we find is that these programs are already available in urban areas such as Greenville, Columbia and Charleston. We are at a disadvantage in rural areas because we do not have the capital resources needed to support these two million dollar annual budgets that takes place in some of these centers.

So Clemson's pilot program is to have all five centers working together at Clemson's core hub on their campus at the Regional Entrepreneurship Development Center. Then we can mitigate some of these costs, and currently our estimate is to operate each center at a $200,000 budget. Our center, and of course every center has to find its funding independently, but now half of that is being funded through the Duke Energy Foundation and the other half through a private foundation in Hartsville. So we are currently receiving no federal or state money.

Access to services and technology is probably the second thing. We have this misconception in South Carolina and especially in rural areas that we cannot do it as good as other areas. We have to change this opinion and change this image across the state. And it begins at each one of the centers. That is part of the lacking of confidence in the network, not knowing that this technology or these technologies can be developed here, that they have to go either to California or go up in the northeast.

I have to brag on our community leaders, of course in Hartsville as this was a community-led initiative through a private foundation. And it has allowed us to take part in this initiative for the last eight months and we are looking forward to moving into the future. It is a hybrid-internet consultant model designed for non-metro areas. The components include a community owned incubator which we currently have. The training is provided by Clemson, it is a 12-week program, certificate program, through Clemson. Myself as the director and our board members as well as many individuals taking part in this program. And we all use the regional entrepreneurship center at Clemson for different services that the entrepreneurs can have access to when we talk about the services, business planning, cost projections, finances, et cetera, all the things that go into creating these businesses.

What we do primarily at the center is walk them through a five-step process with a preliminary evaluation of their technology and of the individual. We do not have an application process. We take anyone off the streets. We are seeing the unemployed, we are seeing those with full time jobs that just have a hobby that they would like to turn in and find out if it can be scalable into a commercialization application.

If they are viable, we put them through a detailed analysis with a partnership group that we have at Clemson, and we begin that business development, and strategic planning. We then try to find them funding sources, recruit their staff and have formation of their new company. And then at that time, they are on their way, moving into product and company development, leaving our center into partnership centers that we currently have like the one at SIMT, a manufacturing incubator, or to a viable storefront or contract manufacturing or to build a manufacturing site in the area.

We do not require that these individuals stay in the Pee Dee, but we hope after the resources that we help them with, that they will want to stay within our region.

We have partnerships of course with SIMT, Sonoco, Duke Energy. We work closely with SBDC and SBA. And we move these individuals to proof-of-development stage, and I would say that is probably our strongest limitation, is financing or funding these different innovators that come through our doors. So I can say that new programs or existing programs could be evaluated to help that proof-of-concept stage become a reality. When we see Shark Tank on TV, all of these ideas, technology ideas, have already passed through that proof-of-concept stage. It is finding the funding for some of these individuals that are either unemployed or have full time jobs and are paying the rent, paying the mortgage, to get them enough financing to just get them to prototype development. And then at that point, find venture capitalists or angel investors.

I want to talk real briefly on a new or most recent press release that we have had come out. One of our five current entrepreneurs that are working in our center just received $300,000 in venture capital and is developing a risk mitigation app in the nuclear industry for Duke Energy. This app will be developed in the next three weeks, phase one, and he has currently put an offer on a building downtown Hartsville, will be housed in a building in downtown Hartsville going forward. So we are real excited about that. That is our first success story in the first eight months that we have been established.

So more to come. There are four that we are currently working with in the pipeline. We look to support anywhere between seven to eight entrepreneurs at any time at our center. With five of these across the state, you can imagine maybe 10 or 12 different businesses, small tech companies, coming out after year one.

It is a pilot program, we are still in the process of collecting all the raw data and developing our metrics as to how this program will be successful in the coming years. But we look forward to seeing the output and the success stories that we have in the pipeline.

So thanks for having me here today. I really enjoy being able to spread the word of what is going on in Hartsville that benefits not only our city, but the entire region. So, thank you.

Chairman RICE. Thank you, Mr. Chastain.

Our final witness today is Jeff McKay. Most of you in the room know Jeff, Executive Director of the North Eastern Strategic Alliance. NESA is a regional economic development organization that serves nine counties in northeast South Carolina. NESA's primary objective is to enhance the quality of life for residents of the region by creating jobs and capital investment within the existing industry base as well as through recruitment of new companies and expansion of tourism-related development.

Mr. McKay started his career in North Carolina as the director of the Polk and then the Stokes County Economic Development Corporations. He then went on to the North Carolina Department of Commerce, and from there became the director of the Greater Statesville Development Corporation.

He is affiliated with the South Carolina Chamber of Commerce Tourism Task Force Committee, South Carolina Developers Association and currently the President of the South Carolina Economic Developers Association.

Thank you for your participation today.

STATEMENT OF JEFF McKAY

Mr. MCKAY. Mr. Chairman, thank you for allowing us this opportunity and on a personal note, thank you for your commitment to this region. I appreciate it and we certainly are a lot better with your commitment to help us. Thank you.

I also want to start out by saying that there are a lot of good programs that are currently going on within the state and this region to try to better the rural economies and the economy of this region, and for that we are appreciative as well.

You mentioned at the beginning of your comments about working together in collaboration, and as you know, our organization is based on that, that is the linchpin of what we try to do and the

success or failure of our organization is our ability to cooperate and collaborate. So we are on board with you 100 percent.

I have prepared some comments and my staff implored upon me that I need to read them or we will be here for another 45 minutes, so with that, if you will bear with me.

One of the great things that we have the opportunity to do as a regional economic development organization is to meet with a lot of individuals who are looking to make, potentially make investments or try to create jobs within our region. And during these conversations, we have uncovered a few things based on their needs that I would like to share with you today, which we feel could better our opportunities to grow jobs and more capital investment in the region.

There are basically three key points that I wanted to bring forward:

Number one, in talking to these folks, it seems that there is a real need for greater mentoring opportunities that would assist entrepreneurs with navigating the pitfalls and challenges of starting a new business.

Number two, access to capital for small businesses and particularly entrepreneurs in rural areas is vital to the economic health of our region.

And then finally, the continuing improvement of our region's infrastructure, including interstates, ports, and broadband, presents a crucial fulcrum on which rural small businesses balance.

To begin with, there is a need for an outlet whereby individuals seeking to start a new business can consult with tried and true entrepreneurs who have a need for business guidance from experienced individuals that have been through the process and challenges of creating a profitable venture. Rural America is desperately in need of an apparatus that allows for the knowledge and wisdom of experienced business people and entrepreneurs to be imparted to a younger generation.

Similar to Teach for America, a non-profit organization that is focused on providing high quality teachers in rural and low-income areas, business-oriented mentoring programs could be a vital tool in improving rural job growth opportunities.

An effort such as this would allow individuals seeking to start a new business to consult with experienced entrepreneurs who have an understanding of the business world and can share their experiences with these individuals on common business issues such as healthcare, understanding how a business is taxed, the process of creating a long-term business plan, et cetera. This would allow entrepreneurs to focus on the management of their business with the insight and counsel of an experienced professional. A linchpin of this endeavor could rest in the initiative's flexibility to accommodate the needs of business within diverse environments throughout our region and other regions of the nation.

Secondly, improving access to capital. Access to capital for rural businesses is also an issue that needs to be addressed. Small, rural businesses still struggle with access to credit, which affects their ability to grow. Sometimes it is a small amount of money for minor facility improvements or equipment purchases. If a rural initiative

were established to provide low level loans, it would be a great asset to rural businesses.

In rural areas especially, current practices and economic conditions now make it difficult for entrepreneurs to access capital. One idea to help this situation could be the possibility of the creation of a rural capital access program or a revolving loan program with terms and conditions that are simple in nature and more easily accessible in rural areas.

On the infrastructure front, one of the most pressing needs of our region in terms of strengthening our rural workforce and creating a better business climate is an improved infrastructure. Regarding our region's infrastructure, interstate, ports, and broadband access all must continue to be improved to create a more high quality business environment.

I–73, a planned interstate that traverses our region, is a key to future growth within our region and continued support and passage of the Federal Highway Reauthorization Bill will be important to the road's future. The completion of the South Carolina portion of I–73 will allow the region to continue to grow unmitigated by travel and distribution constraints and will provide a greater level of connectivity to the rest of the nation.

According to a report by Chmura Economics, I–73 can provide $120.8 million in annual cost savings for current businesses as a result of increased travel efficiency and the annual impacts of the road are estimated at $2 billion and will sustain over 22,000 jobs in South Carolina in 2030 and beyond.

Additionally, a study by Coastal Carolina University concluded I–73 will spurn the creation of 7700 jobs, along with the injection of $170 million into the local economies within the path of the road during the proposed five years of construction.

The Port of Georgetown should also be dredged in order to sustain a strong manufacturing base in that part of the state. This is a project of great significance to our region as it will provide an additional selling point to potential businesses considering locating within our area.

This project was moved much closer to reality in October as Congressman Rice assisted mightily with the passage of the Water Resources Reform and Development Act, which allowed for the allocation of federal funding for dredging of the Port of Georgetown.

The impact, both planned and unplanned, that the dredging of the Port of Charleston will have on South Carolina and the entire eastern half of the United States stands to be immense. There are many companies who are currently using the port and that number will only grow with access that the dredging brings. Companies may relocate if they cannot take advantage of post-Panamax shipping opportunities via the Port of Charleston. Money for dredging is imperative to assure South Carolina's place as a home to a major east coast port.

The region's broadband internet access must continue to be improved as well, to ensure continued economic growth. Currently, 26 million Americans living in rural areas are without high-speed internet access. This restricts their ability to find jobs, customers within and outside of their market, and research information to better their businesses.

The federal government could assist with the dissemination of broadband internet access by working with telecommunications providers to either incentivize the creation of rural broadband networks and work with the providers to ensure small communities are covered or work with state and local governments to ease the restrictions on publicly-owned broadband networks and assist with the funding of these capital projects.

In many cases, broadband could allow for greater job growth within rural communities. Work-from-home opportunities abound in today's workforce and even many call centers are focusing on virtual call centers as a more efficient means of reaching their workforce without having to procure a building, paying the subsequent cost of the facility and many of the other hindrances that are created with a new call center.

Greater broadband access in rural areas will create a more streamlined process for potential employees as they search for jobs, as well as making it easier for businesses to find qualified employees.

In conclusion, the need for continued support along these three areas is vital to our region's continued economic growth. The creation of mentoring opportunities that could assist new business owners in navigating the issues of running a business is crucial. Currently, there are a number of organizations that are able to help businesses during the infantile phases of the process, but there is a distinct need to create a flexible apparatus that is able to help guide entrepreneurs through the common issues and pitfalls of running a business.

Access to capital, especially for small rural businesses must be made available. Currently, regulations, both new and revised, hinder the loan process for many small banks, leaving only larger banks as a source for capital. New and innovative programs in rural areas could spur new business opportunities.

The continued support of and improvement of the area's infrastructure will also help in improving the economic standing of our region's rural areas. Within our region, the completion of I–73, the dredging of the Georgetown and Charleston ports, along with the improvement of the dearth of broadband access will make continued economic growth possible.

Thank you for the opportunity to speak with you this afternoon.

Chairman RICE. Thank you, Mr. McKay.

Congressman Tallon, do you have any questions?

Mr. TALLON. Mr. Chairman, I do. Thank you again so much for allowing me to be here today. And I thank the panelists.

I think I would like to make a comment. I grew up in this county, Lakeview and Dillon. I think about Chesterfield County, Marlboro County, Marion County—and who did I leave out? Dillon County. And you know, the recession we have been through, it has affected the country. I think, Mr. Kaglic, it may be more structural than just cyclical this time, I do not know. But things have been tough in these four counties that I am specifically speaking of for a long, long time.

The government has helped and the government has hurt. If we go back to the 1960s, one of the best things the federal government ever did was pass civil rights legislation that allowed our kids to

go to school together, to be able to work in the plants on assembly lines side by side. I remember as a boy growing up where there were men, women and colored restrooms and there was a water fountain for white and you had to look to find the black water fountain—the colored, excuse me, water fountain. But that is how I grew up. We were largely, in these four counties, agricultural in nature. But agriculture changed, and that is when the textile mills started moving into our regions. And the two things that allowed that, again, was the civil rights legislation and technology—air conditioning made a huge difference. And we grew, these rural counties, and provided jobs and opportunities. And for generations, these families and their children and grandchildren could stay here in the county.

In 1965, I opened a business here in Dillon County and it grew and grew and the economy was great, everything was going well. I came back a few years ago and I was waiting to pick someone up on the train and I walked up and down, Sylvia, Main Street, and only one business was still open in Dillon County—on Main Street of Dillon that was here in 1970 when I sold my business out and moved to other places.

I think we would be astounded if we looked at the income and where it comes from in these counties today, Jeff. Government transfer payments and government employees, I would guess—and I am talking the school system and county seats and state employees and massive government transfer payments because of the socio-economic plight of so many people.

Again, I am just trying to express to anyone, especially, Mr. Bundy, to the state of South Carolina, I forgot what percentage the rural population was.

Mr. BUNDY. Thirty-three.

Mr. TALLON. Thirty-three or so. But we just, I think, feel like sometimes hopeless. But there are good people in these rural areas, Tom, very good people. And they need a hand up. One of the biggest mistakes, Mr. Jacobs, I think was a policy of the federal government was NAFTA, North American Free Trade Agreement.

VOICE. Here, here.

Mr. TALLON. And it cost the rural areas of this state and your district, Tom, thousands upon thousands upon thousands of jobs. The tax base for the schools and other public entities that were so important was diminished, wiped out. Farming did change. We obviously went through a mechanical revolution and then later I guess a chemical revolution. It is very efficient now. And so that is kind of where we are today.

Joe, I really appreciate what you had to say. But as I was thinking, you know, a lot of the things that the panel talked about here with some exceptions, if I lived in Florence—I do live in Florence—but if I was in the Florence community or Sumter or Rock Hill or even Hartsville—Sonoco, Duke Power, Robinson, we do not have that in these counties. We are—you are speaking to us and we wish we were in a position to take advantage of these opportunities.

Mr. Chastain, I am very excited about the Duke—what is it——

Mr. CHASTAIN. Duke Energy Center for Innovation.

Mr. TALLON. Duke Energy Center for Innovation. We need one of those in Dillon County for Chesterfield County and Marlboro County and Dillon County and Marion County. We want to know how we can get one. And that is my question to you.

Mr. CHASTAIN. Sure. And through this pilot program, there will be five across the state and I believe it is Clemson's goal to have them located geographically so that they do not interfere with one another, but they can also serve the entire state. After the pilot is finished, their goal is to then use the metrics and the curriculum and this program and introduce it to other areas of not only South Carolina, but if it is successful, the nation.

For now, take advantage of the one here in Hartsville. Through our hybrid model, we do most everything on a virtual basis, so you do not have to come over to Darlington County or to downtown Hartsville to participate in this program. We will help people across the region with any tech idea that we can think is scalable and market ready, and we will try to get them to that point if it is not there already, to move them forward.

Our goal is to develop technology companies in our region and keep them in our region. So if they are developed in Dillon County, we will keep them in Dillon County. That is our goal.

Mr. TALLON. Well, I believe your said your initial budget was $200,000 a year and that Duke Endowment funded——

Mr. CHASTAIN. Duke. $200,000 is the estimated budget. Comparable to other programs that are close to $2 million in urban areas. And Duke funded half of that for the first year, and we are currently in a process of going through a grant cycle to find out if we will get funded for the second year. The other came from local support, whether it was a small donation from a local foundation, and others were community engaged individuals that mustered up $5000, $2000, $10,000 checks.

Mr. TALLON. Well, if you—and I know you will be available to talk to the Congressman and people who are interested, but if we could get one that was a center for these four counties that I am specifically discussing, I just hope that Duke would consider participating the way they have in Hartsville. And I know we can internally come up with the other half of it. I am very interested in getting over to Hartsville and learning more about this.

Jeff, last question—Tom, thank you, I am just so pleased to be here today—you mentioned available credit and you had some suggestions. Were you thinking about the possibility of some of the regional banks creating an entity? What do they need, do they need some sort of government insurance for these loans, something the Small Business Administration or have you developed that thought?

Mr. MCKAY. Congressman, I have not developed—I do not think there is one tried and true I guess program. And that is part of the challenge that we are hearing. It may be as small as a micro-loan of a couple thousand dollars when someone is, you know, needing immediate access to capital to solve an immediate critical need of their business regarding whatever the scale is. I think some of the challenges that we are seeing now is particularly on some of the federal agencies, the length of time to access that money may precede the viability of the business itself, if that makes sense.

I started to say—I am a little older maybe than most of the panel, there may be one or two here that is close to the age, but I remember the good old days, I will say, when communities had the ability to develop revolving loan funds at the city level. I think it was—I may be wrong on this, but the community development block grant program that had a revolving loan component.

Mr. TALLON. It did.

Mr. MCKAY. But if a city, for instance, saw that there was an opportunity to work with a business that had a good plan, they could develop 10, 15 jobs over a year by allowing them to participate in a revolving loan fund for $5000, you know, they had the opportunity to do that. I do not know that that is available now, but in some instances, perhaps $5000 could mean the life or death of an emerging business.

Mr. TALLON. Exactly. Well, I appreciate those suggestions, Mr. Chairman, and of course a mentoring program is vitally important. Thank you again. I just want to say I have got two wonderful, beautiful grandchildren that are living in Dillon County today and they are bright and they have so much to contribute, and they want to stay here in Dillon County. And it could be Chesterfield or Marion County or Marlboro County because we are sort of all in the same boat. And I want to see them have that opportunity to stay here and contribute, Mr. Chairman.

And again, thank you for holding this hearing, appreciate it.

Chairman RICE. How about our former Congressman Robin Tallon.

[Applause.]

Chairman RICE. I am proud to call him a friend.

Mr. Kaglic, before I start, I just want to make a couple of comments based on his questions. One, I have got three sons, a 24 year old, a 26 year old and a 28 year old. I have already had one move away—I live in Horry County—because there is not a whole lot for them there. They are all three fine, bright, college-educated sons. It is not just a rural problem, it is all over the whole country.

With respect to these rural counties, I have a lot of hope for them. And if you look at what is happened in Horry County in the last year, we have had two decent sized manufacturers, I mean, small companies obviously, gun manufacturers come. Where did they go? They didn't go to the coast, they didn't go to Myrtle Beach. You know where they went? Ada—they went to Ada, South Carolina. There was product there, there was a place to work, decent transportation. And, of course, we have had Essex Holdings coming to Marion County. So, you know, there is room for us to improve and with wages rising in developing countries around the world from what were essentially non-existent wages to still very, very low wages. But that makes us more competitive. In fact, I have seen studies that showed southeastern United States will be among the most competitive regions in the world in the next decade. So, you know, we have got a lot of things to look forward to and a lot of things to hope for.

But I do believe that a lot of our problems, not just in rural America, not just in South Carolina, not just in my district, but throughout the nation in terms of employment, are coming out of Washington. When I was Chairman of the Horry County Council,

we looked at how to make our county more competitive, we applied it and it worked. Nikki Haley, I think has done a great job in South Carolina in bringing jobs and I think, what are they now, Mr. Bundy, 40,000 jobs that she has done, something like that, 40,000. South Carolina's unemployment rate has dropped to essentially to the national average. Wow. She is delivering what she said she was going to do.

We have got to apply that same competitive spirit, that same logic. It is not that complicated. You know, what are we doing that is wrong, what are the other guys doing that is right. When the corporate tax rate in the United States is 35 percent, 40 percent when you add everything into it and it is 13 percent in Ireland or it is 15 percent in Canada, that is a big obstacle. When a business can choose where they are going to locate and they can go somewhere and pay half the tax rate, what are they going to do? You know, when the regulatory burden in our country costs a small business an average of $10,000 per employee, higher than the tax burden and they can locate elsewhere with a much lower regulatory burden, what are they going to do? The world has gotten a lot smaller, it is a lot easier to compete.

So, you know, a lot of this comes out of Washington, at a time when—to stimulate the economy you lower regulatory burden, you lower taxes, you put more money in people's pockets, but over the last five years we have done exactly the opposite. Dodd-Frank and the Affordable Care Act were two of the biggest regulatory expansions in the history of the United States. Tens of thousands of pages of additional regulations. That is anti-competitive. And plus, Dodd-Frank particularly hurts access to capital.

And then you have got additional taxes with the fiscal cliff deal, additional taxes from the Affordable Care Act, that is money out of people's pockets, stifles the economy.

And then you have got a constant bickering, the quarterly fights and all the uncertainty that creates, coming out of Washington. And uncertainty creates doubt in business, cuts back on investment. That hurts the economy.

You have got anti-jobs provisions in the Affordable Care Act, the 30-hour per week limit, over which you will be counted as a full time employee. I have people all the time that—had a large employer here today in Dillon County tell me today that he was going to move a lot of his employees to part time so he could stay under 50 employees so he would not be hit by the effects of the Affordable Care Act. You know, the 50 employee limitation. I had an employer today at lunch tell me that they were not going to—they were holding back on hiring because they had to stay under 50 employees.

You know, these regulations, they matter, they affect, they ripple through the economy, they affect everywhere from large urban areas on down to rural areas. And people think we can do these things in a vacuum and it does not matter. It absolutely does matter. And I hear about it every day from people in my district.

Mr. Kaglic, was what I said correct? If you want to stimulate the economy, do you increase taxes or decrease taxes? Do you increase regulation or do you decrease regulation as a general proposition?

Mr. KAGLIC. Mr. Chairman, are you expecting a yes or no answer on that?

[Laughter.]

Chairman RICE. Answer the way you want to.

Mr. TALLON. It depends.

Mr. KAGLIC. Is the way to stimulate jobs, adding regulations, reducing regulations; adding taxes or reducing taxes. I would say, Mr. Chairman, that the way you stimulate economic growth is providing businesses with visibility. Whether the visibility is on regulations or with taxes, businesses need visibility because businesses can deal with regulations if they know what they are. They can deal with increases in taxes or decreases in taxes. Ultimately, we want as little taxation as is feasible. But at times, there are going to be times when—currently right now, the government is on a long-term path that is clearly unsustainable and somewhere along the line we have got to bring that down. It is going to happen either through spending cuts, it is going to happen through tax increases, it is going to be a combination of both.

But I would get back to my original point, you mentioned business leaders you talk to. We talk to business leaders as well, in a variety of forums, including our boards of directors' meetings and district roundtables throughout our district. And I was talking to a manufacturer, a large manufacturer, not from South Carolina but close by in North Carolina. And we were talking specifically about the problems that we were having with the unemployment insurance tax programs in North Carolina. South Carolina ran into a similar problem, defaulted on their program and ultimately had to come up with a plan to do that. Part of that plan was to increase taxes on employers. It had to happen.

Our manufacturer told me, said, "I do not care what you do, just tell me what you are going to do. I know that something is going to change, just tell me what it is going to cost and I will deal with it."

So reiterating my original point, Mr. Chairman, provide them with visibility and they will grow.

Chairman RICE. Thank you, sir.

In your opinion, does the law Dodd-Frank and the regulations under the law, make it more or less easy for small, startup businesses, small businesses, to access capital?

Mr. KAGLIC. Again, you are not expecting a yes or no answer.

[Laughter.]

Mr. KAGLIC. Let me take a step back. I know that we want clear and concise answers to these issues but these are complex issues. When it comes to small businesses, there are many challenges that small businesses face and there are particularly many challenges that small businesses have faced since the great recession. And it really started with the significant decline in asset values that we experienced in 2007, 2008, 2009. Small businesses are much more likely than larger businesses to rely on the bricks and mortar, whether it is their homes or the actual structure of their business, as a source of collateral for loans to expand their business. When those asset values declined precipitously, it did two things. Number one, you no longer had those assets on your balance sheet that you could use as a collateral; and it increased the inherent riskiness associated with that asset. When you increase the riskiness of that asset, that means that ultimately banks or any lender who is going

to come into a market and fill the need of someone who is borrowing money is going to charge a larger risk premium for that.

Chairman RICE. But that is market, that is not Dodd-Frank.

Mr. KAGLIC. Absolutely, that is market.

But there are other factors—what I am trying to do, Mr. Chairman, is lay out that there are a lot of factors that are affecting small business borrowing. And regulation, I think is part of it because again, lack of visibility around what Dodd-Frank means to them could be an indicator in those lending decisions, but there is a lot more to it as well.

Chairman RICE. So the answer is yes, Dodd-Frank is having some negative effect on it.

[Laughter.]

Mr. KAGLIC. Lack of visibility into the regulation, yes.

Chairman RICE. All right.

Mr. Bundy, I am so impressed with the state Department of Commerce and what they have done in terms of making South Carolina a business destination. I have seen various polls naming South Carolina from number two in the country to number six in the country in terms of places to do business and I think y'all play a pivotal role in that.

Can you talk to me somewhat about the role you play in navigating various levels of government and various government agencies when you have got a potential employer looking at South Carolina?

Mr. BUNDY. Are you talking more at the state level?

Chairman RICE. I am talking about the state and local level.

Mr. BUNDY. Okay. Mr. McKay can testify I think for sure, economic development is a team sport. Tony McNeal is here, I think, somewhere.

Chairman RICE. Dillon County, you know, they have their new announcement today for their new revitalized public-private partnership, they have got their new logo out today and that is exactly what I want you to talk to them about, how important it is for them to work together.

Mr. BUNDY. Well, it is. And when companies start looking at the state, I mean they start subscribing to a newspaper before you know they are coming in the neighborhood, they want to know what kind of community it is.

The good thing about South Carolina is, we are fairly small and we kind of know each other and we do work together. And not only from a community level, at the regional level, county level, at the town, but also with state agencies. We have a great relationship with the Department of Health and Environmental Control. We work well with them. We have got a good Department of Employment and Workforce. Our technical college system is still one of the best in the country as far as training goes.

So we look at—when we talk to companies about what they are looking for, they are looking for people, they are looking for transportation and logistics. And we try to bring—we call our friends who are in those areas and we bring those resources to bear on solving their issues and their needs and their problems, whether it is harbor freight, roads, whatever it might be. And that is what makes, you know, for success.

Jeff knows everybody in the region, he knows everybody here in Dillon. So occasionally we are doing the quarterbacking, sometimes Jeff is. We do not have to rotate quarterbacks out.

But anyway, I guess to answer your question, team sport, and everybody is conscious of the team and in South Carolina generally—you cannot go it alone when most folks do not try.

Chairman RICE. Do you have any specific suggestions that you would make to Dillon County or Marion County or Marlboro County to make them a more desirable location for a potential employer?

Mr. BUNDY. I think the things that we are all pretty cognizant of anyway, but I will repeat them, a couple of them—workforce development, focusing on workforce. I know we are all aware of that, I know we are all working on that, we have got a great technical college system. We need to continue to work on K through 12. Those are things that communities can do to make a difference. So workforce is always an item.

Product—we talked about product. I cannot tell you exactly our engagement in each of the counties, but I suspect—Jeff, you may know that better than I do—the state has been engaged and wants to continue to engage in helping communities with product development. So I work for a gentleman, Maceo Nance, many of y'all probably know Maceo, he probably knows more about this state than a lot of folks. But call us and use us to help you develop product.

We work closely with Jeff and his team, with Tony and his team. And my suggestion would be workforce and then infrastructure and product development. Folks want to get into a location and they want to get into it fast and every day faster and faster.

Chairman RICE. Thank you, sir.

Mr. Jacobs took me through a little company in Florence, I guess I should not name, but he is a specialist in Lean Six Sigma, right? And Lean Six Sigma analyzes manufacturing processes and makes them more efficient in a number of ways. But one of the things they told me, and I cannot cite the example correctly, but this company makes mass volumes of a particular product and they would take custom orders but it would take like six weeks for them to get it done. And after he got through with them, it took four hours. Wow. Talk about making people competitive in a worldwide environment. This man knows what he is doing and he can help any business and he can help South Carolina a lot.

Tell them a little bit about Lean Six Sigma, if you would, Mr. Jacobs.

Mr. JACOBS. Lean Six Sigma, that is reducing variation and I will give you just two minutes worth of history.

Chairman RICE. That is about how long we have got.

Mr. TALLON. Speak up just a little bit.

Mr. JACOBS. There was a guy named Deming back during World War II, all of the men went to fight the war and the women went into the factories to work. And Deming came up with a process of how to standardize things and train people to do it correctly the first time, make sure the cost was where it should be, delivery was on time and the quality was good. When the war was over, the men came back and the women went home. Japan heard about Deming and Japan took him over there to work with Toyota and that is how what they call the Toyota Production System got started.

It is really simple tools, you get rid of the waste, you increase your throughput and you reduce the variation. And that is the process that we used with the company you are speaking of. We also use the same methodology—if you remember when you read my bio, there are 65 innovation engineers in the United States right now. I am number 62, 63 and 65 is also in South Carolina and the same methodology is used there to basically cut down on the speed from the time you have an idea until you get it on the retail shelf. The gentleman that came up with it, he had three inventions before he got out of high school. They say if you survey the average house, you will find 18 products that he invented or reinvented. So that is the methodology we use on the innovation end.

But it is a very straight process. The first time I used it was a little company in Charleston, and it is cited in some of our literature. He came up with a product to detect moisture damage in your house. And SIMT did a virtual prototype of the product and Culver came in and tried to buy the product from him before he got the actual prototype working. He had $5 million in sales the first month he went into production.

So there are a lot of things that we do and when you speak of small manufacturers, that is where my passion is, working with manufacturing. I was there when it was done the old way, so the least I can do for society is help get them back where they need to be. But a lot of the small guys, if they want to call me and ask me questions and I kind of coach them through some of the things because they do not have any money, I am more than willing to do that.

Chairman RICE. Well, I want to ask you if you would have any specific suggestions for a Marion and a Dillon and a Marlboro County on what they can do to make themselves——

Mr. TALLON. And Chesterfield County.

Chairman RICE. And Chesterfield County to make themselves more attractive to a small manufacturing entity.

Mr. JACOBS. Well, they hit on a couple of them. Infrastructure for sure. You have got to have good infrastructure if you are going to attract larger companies in. I will never forget Jim Rozier, you probably remember him down in Berkeley County.

Mr. TALLON. Very well.

Mr. JACOBS. He made a speech one night after we lost Daimler, the Mercedes plant, to Alabama. He says imagine taking the leadership team from Daimler down Carnes Crossroad to Goose Creek. About every three feet, there is a pothole. So, the infrastructure is definitely in there. But the one thing that you guys have in this area—and I have had this conversation with some folks before, that you do not toot your own horn enough.

This I–95 corridor has got a bad reputation and they refer to it as the corridor of shame. And some of the facilities, you guys really need to showcase them whenever you look at bringing other industries in. Actually we went to two different facilities. One of the facilities we went to was a lot of people blame losing textiles because of what this company did to become efficient. Textiles did not change their management style and depended on long runs to make money. When the size batch order decreased, they were not

competitive, they had to leave. This particular company, the first one you went to, not textiles but same methodology. Their lot size was going down and they were not profitable. And we went in there and showed them how to make it profitable. A simple tool for setup reduction. It took them eight hours to change over from one product to another. Whenever we finished in one week's time, it took them 36 minutes to do it. All right? The rest of that eight hours was making another product. And the plant is still there. Actually both those facilities was in the same boat, they were losing jobs.

To wrap it up, showcase what you have got. The workforce development piece, you can get the people where you want them. People do not get every morning and go to work determined they are going to do a bad job. If you give them the tools to work with and teach them—and it does not take much to do it. That is part of the example that I give. It does not take a Phi Beta Kappa to do some of these things. There is just a certain methodology about doing it.

But I would encourage you to showcase the facilities that you have here that are doing great, because other people see it, and the stigma that has been placed on the 95 corridor, I think eventually you will see it go away.

Chairman RICE. Okay. Mr. Chastain, a technology center in Marion, Dillon, Marlboro, Chesterfield. Really? Tell us how that can happen.

Mr. CHASTAIN. Well, I think in talking on behalf of our center first and then I can try to apply it to how it could come to another rural community.

But how we are so successful is not—it does not land on myself, I do not have enough gray hairs, I am still way too young to really know what I am talking about half the time. It is the collaboration that we have in Hartsville that makes ours so successful. Our board members, just looking at that and I will keep going up the ladder, but our board members are retired Sonoco executives with backgrounds in manufacturing, partnerships with SIMT, the Governor's School for Science and Mathematics.

I am talking about leveraging the individuals and the industry you currently have in these areas to bring together the stakeholders and the figureheads that can put the power, energy and hopefully ignite themselves, find the capital to put behind an innovation center, a business incubator, an accelerator, whatever you want to refer to it as. And then find a model that works and one that works for your region.

Something we have not tapped into, but we want to, is agriculture, that is still a big part of industry across the Pee Dee and it is hopefully going to be our niche as we move forward into year two and three. Find your niche, find a program you think will be successful, one with a track record, as we hope this one will be, and then once it is available, go out and seek the opportunity.

Of that $200,000 that we operate on as an estimate, we do pay Clemson for their fees and their programming for this, so have the resources available. It is not as much about the individual storefront, the physical location, as the resources that you can provide to the innovators or entrepreneurs to have them have a higher success rate and develop their technology. And whether this is a tech-

nology or retail or anything else, it has to have the stakeholders around it to make it succeed. And I think we all know that. Leveraging that in any community, but I think in these four counties you referred to, it is going to take a pool of collaboration from different individuals to make it successful.

And I hope, as this pilot becomes long term, that it can be expanded to more regions across the state. The goal of Clemson is to make the state of South Carolina better. The goal of Hartsville is to make our town and our region better, and have an impact across the state.

Chairman RICE. Thank you, sir.

Mr. McKay, you said that one of the issues for businesses is access to capital.

Mr. MCKAY. Yes, sir.

Chairman RICE. Where is the primary source of capital for a small business?

Mr. MCKAY. Presently?

Chairman RICE. Yes.

Mr. MCKAY. Well, I agree with my colleague, a lot of it, particularly on the small business side, tends to be financed from personal assets or personal debt that can be leveraged to start the business, at least from what I have seen.

Chairman RICE. So they use their personal assets at the local bank, is that what you are saying?

Mr. MCKAY. Yes.

Chairman RICE. So the bank really——

Mr. MCKAY. Right, exactly.

Chairman RICE. Is the access to capital. Do you know many bankers?

Mr. MCKAY. Quite few.

Chairman RICE. What do they feel about the federal regulatory process?

Mr. MCKAY. I can give a yes or no answer——

[Laughter.]

Mr. MCKAY. No, they do not like it, at least for the most part. It is making it more challenging.

Chairman RICE. Yes, I hear from bankers a good bit about the increased federal regulation. And from what I am hearing, it is a lot harder for a small business or a small individual to get a loan than it was five years ago. Is that what you are hearing?

Mr. MCKAY. Exactly. If they can get one at all.

Chairman RICE. We had—in this exact Subcommittee in Washington, we had a group of community bankers come in, one from D.C. and one from down here. We had Fred Reames, state banking association, and others come in. And it was pretty well universal that, but you know, the funny thing about this Dodd-Frank law is that we need to protect the middle class, is what they say, protect the middle class. But the bankers across the board say, you know, with these increased lending standards, it is not the wealthy people that are going to be prevented from borrowing money, it is not the people with high incomes that are going to be prevented from borrowing money. It is the people on the borders. You know, the community banks, they are called community banks for a reason. They are in the community and they know the people in the community.

And they might know somebody that, hey, may not have a 37 percent loan-to-value or income-to-debt ratio. It might be 31. But they know these people and know their history, they are willing to take a chance. But these regulations take away that ability.

So we have got to get the—the federal government, one size fits all has been proven over and over and over again not to work. And that is what concerns me about these one size fits all banking regulations.

Do you have any specific suggestions that you would make to these individual counties?

Mr. MCKAY. No, but I do want to make a point. I have been in this region for eight years now and one of the things I noticed in a couple of our counties in this region when I first got here is, and I made the statement, I think sometimes they could not see an opportunity in front of them because they are always hanging their head because, as the Congressman said earlier, they did not see a lot of hope.

One thing I am seeing now though is there is a lot of pride and a lot of hope being brought back into the region. And, you know, these counties have just as good or better people than any other place in the world, and they have got an attitude that if you put a challenge in front of them, they will accept it and they will exceed your expectations. And the mantra that we are trying to pursue for our organization is we are not asking anybody to give us anything, we are just asking for the chance to compete for the business. And I think our friends at Commerce have seen, when given the opportunity to compete for jobs and investment with the rest of the nation, southeast and the state, we can make them proud. So, keep your head up, keep the challenge going and we are going to win.

Chairman RICE. And not only that, but look here, I mean we have got the federal government, we have got the state Department of Commerce, and wow, they are being great and aggressive. I think they may be your best ally in terms of economic development. MEP, Clemson, Coker, and then regional and down to the local. Where is my staff here, you guys stand up—Rodney Berry, John Sweeney—I mean everybody is here to help. So I think the level of collaboration is fantastic and maybe something we have not had in the past.

So I am excited about our possibilities and I am sure going to work hard to make sure they come to fruition.

Do you have any other questions, Congressman Tallon?

Mr. TALLON. Well——

[Laughter.]

Mr. TALLON. I just cannot thank you enough again for being here and the panel. Going back to that access to capital, these are, as you have said, hard-working, smart, innovative people. How many times—and I guess I am relatively speaking about that $5000 that you are talking about—how many times have I see where $5000 or in that ball park, made the differences in businesses that do employ 50 and 60 and 100 people. So we definitely want to continue to focus on that aspect.

And again, Tom, thank you, thank everybody.

Chairman RICE. Okay, clearly something is still damaged in our economy, but holding hearings like this, like the one we have had here today, allows us to examine what is broke and to take steps to fix the problems. By holding hearings like this, by talking with real people from real communities, not lobbyists in Washington, our Subcommittee learns first hand from difference makers about how to jump start our rural economies.

I believe we must find some common ground on which to stand because the American people deserve better than the weak recovery that they have been subjected to, and I remain committed to exploring all options to unleash America's most potent engines of growth, our small businesses.

With that, I ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

Thank you all for being with us today. The hearing is adjourned.

[Whereupon, at 3:40 p.m., the Subcommittee was adjourned.]

APPENDIX

Statement

Subcommittee on Economic Growth, Tax and Capital Access of the House Committee on Small Business

January 24, 2014

Richard Kaglic

Senior Regional Economist

Federal Reserve Bank of Richmond

The House Committee on Small Business

Rayburn House Office Building

Washington, D.C.

Good morning, I am honored to speak to the subcommittee this afternoon regarding the economic outlook. In my comments today, I will share with you some of my thoughts on the factors affecting economic conditions in the nation, as well as in South Carolina, and what that may portend for the remainder of 2014. Before I do any of that, however, please note the views I express in this testimony are my own and do not represent the views of the Federal Reserve System.

Many of the broad measures of the nation's economic activity have been coming in slightly better than expected in recent months. Most notable among those were the robust readings of total output in the third quarter of 2013 and a material decrease in the nation's unemployment rate over the second half of the year. Real gross domestic product, the best measure of the production of goods and services in our economy, advanced more than 4 percent in the third quarter, the fastest pace in two years. And factory output has recently regained its footing, an important development for South Carolina, which has a heavy concentration in manufacturing industries. Meanwhile, the nation's unemployment rate fell in December to 6.7 percent and, while still elevated, was the lowest it's been since October 2008. With relatively solid readings in consumer and business confidence, and a material increase in equity market values, there is a renewed optimism among some economic forecasters that growth in 2014 is finally going to break out of the low-trajectory GDP growth that has been the norm over the course of this now four-and-half-year recovery.

I, however, do not see sufficient evidence that a meaningfully stronger economic recovery is on the near-term horizon. A more detailed examination of some of the broad economic indicators alluded to earlier indicate that growth may remain constrained moving forward. Moreover, the most basic underlying economic fundamentals

for 2014 are not materially different than those that have dominated since the recovery got under way in the summer of 2009. These factors have tempered my own outlook for growth, which calls for a continuation of recent trends in output growth accompanied by modest improvements in labor market conditions. South Carolina's economic prospects are slightly better than the national average, but the state cannot completely escape the gravitational pull of those factors that are weighing on economic growth nationally. For this reason, I will begin by talking about those national trends.

A closer examination of the broadest measure of national economic activity, real gross domestic product, is revealing. In its simplest form, real GDP is the sum of household purchases and residential construction, business investment, our purchases from and our sales to the rest of the global economy, and government spending and investment. This is illustrated in Chart 1 of the appendix, which shows real GDP growth in the second and third quarters of 2013, as well as the contributions to growth from the various segments of the economy—personal consumption expenditures (PCE), business investment in structures (Nres), business investment in equipment (Equip), residential investment (Res), changes in business inventory (Inv), exports (Ex), imports (Im), and government spending and investment (Gov).

With the exception of imports, each of these categories made a positive contribution to real GDP growth in the third quarter. However, it is readily evident that changes in business inventories (Inv) accounted for more growth than any of the other breakouts (1.7 percent of the 4.1 percent total GDP growth). That suggests firms produced more goods in the third quarter than were sold during the period. If that is indeed the case, then firms will have to adjust their production plans going forward to bring inventories back in line with their sales (and sales expectations). Another perspective on the robustness of the domestic economy can be attained by examining sales rather than output. By accounting for the inventory build, as well as the demand from overseas (exports), the government can calculate real final sales to domestic purchasers—that is, the total sales of all goods and services within the geographic bounds of the United States. At times, this measure can provide a better sense of domestic economic activity. In the third quarter, real final sales to domestic purchasers advanced 2.1 percent, a very small acceleration from the 2.0 percent pace recorded in the second quarter (Chart 2).

Personal consumption expenditures (PCE) comprises the largest component of sales in the economy and accounts for roughly 70 percent of GDP. Real PCE is the aggregation of all household spending, which falls into three broad categories—durable goods (such as automobiles and computers), nondurable goods (such as food and clothing), and services (such as dry cleaning and hair cutting). Over the course of the recovery, increases in real PCE have averaged 2.2 percent, with slightly smaller gains in 2013. More recent monthly data is mixed on the outlook for consumer spending. Chart 3 in the appendix shows the percent change in real PCE over the year and the percent change in real disposable personal income. On the one

hand, growth in consumer spending (given by the dark blue solid line on this graph) picked up the pace in October and November and would point toward a bigger contribution from PCE to GDP growth in the fourth quarter. Households have seen some restoration in wealth as equity and home prices have risen, and they are feeling a little more confident about their situations as reflected in various measures of consumer confidence.

On the other hand, however, growth in real disposable personal income (total income adjusted for changes in prices and taxes) has remained weak in recent months. Even though year-over-year growth in such income accelerated through the first half of 2013 (as illustrated by the dashed red line in Chart 3), it accelerated up to about only 2 percent before easing in the second half of the year. While the rise in asset prices has boosted confidence, consumers' spending decisions are primarily driven by income growth and expectations for income growth in the future. Prior to the Great Recession, during a roughly quarter-century period known as the Great Moderation, growth in real income increased 3.3 percent on average, the same as GDP. With little evidence to suggest that real income growth is poised to accelerate, and households still reluctant to borrow, my own outlook for PCE growth is for a continuation of recent trends.

Residential investment (another part of household outlays) continues to trend up, albeit at a slower pace than what persisted early in 2013. Existing home sales appeared to bounce up toward the end of the year following a soft patch in the fall that was at least partly due to potential homebuyers adjusting to increases in mortgage interest rates. Inventories continue to move toward balance in the market, which is helping to restore pricing for existing homes, adding a self-sustaining element to the housing recovery. New home sales also moved higher toward the end of 2013, and residential construction, as evidenced by single-family housing starts (see Chart 4), is up more than 20 percent over last year, although both remain well below pre-recession levels. With relatively healthy job gains, growth in residential investment is likely to continue throughout 2014 at a pace that is slightly constrained by higher mortgage interest rates.

Businesses continue to report firming demand for the goods and services they produce, but their investment in structures and equipment has grown only modestly of late as firms continue to deal with uncertainties surrounding the strength of the economic expansion, the course of monetary policy, near-term tax and regulatory policy, and longer-term fiscal imbalances. Growth in business investment in equipment, which had been a major contributor to GDP growth during the first two years of the expansion, slowed considerably in the latter half of 2012 and remained softer throughout 2013 (Chart 5). The fundamentals that drive equipment spending are profitability, the outlook for revenue growth, and the availability of credit; there has been little change in those areas recently.

Business investment in structures grew modestly in 2013 and is likely to continue doing so throughout 2014. Nationally, vacancy

rates are still moving lower in office, industrial, and commercial properties, which has firmed rents and improved cash flow for landlords. As was the case in residential construction, nonresidential investment remains well below pre-recession levels in spite of recent gains.

The uncertainties cited above contribute to a persistent cautiousness that may be manifesting itself not only in investment decisions, but also in hiring decisions. We are now four and half years into the expansion and have not yet recovered all of the jobs that were lost as a result of it. And that is as true for South Carolina as it is for the nation. Payroll employment growth in the nation was above the long-term average rate for most of 2013, and it has been relatively broad based across industry and geographic breakouts. Yet, it still feels ungratifying after losing about 8.7 million jobs nationally during the Great Recession. In South Carolina, the recession led to a net loss of nearly 170,000 jobs. Relative to the nation, South Carolina lost a larger share of its employment during the downturn (see Chart 6), a phenomenon attributable in part to the state's reliance on manufacturing and construction heading into the recession. Over the past year, job growth in the state has mostly surpassed that of the nation, but because it's coming out of a deeper trough, South Carolina still has a longer way to go to reach pre-recession levels of payroll employment.

The general outlook for job growth remains favorable as business surveys (including the Federal Reserve Bank of Richmond's Carolinas Business Activity survey) suggest that firms continue to hire; temporary help employment rises; and job destruction (as illustrated in initial unemployment claims data) remains very low.

As mentioned earlier, the nation's unemployment rate is currently at its lowest point since October 2008. Yet it's still more than 2 percent higher than it was prior to the onset of the downturn, and other measures of duress in the labor markets (the incidence of long-term unemployment, involuntary part-time employment, discouraged workers, etc.) remain elevated. Moreover, there has been a disconcerting trend toward lower labor force participation. In fact, the nation's labor force participation rate continued to fall even after the recovery began and today remains near the lowest it has been since the late 1970s. In South Carolina, similar trends have been evident and, most recently, even more pronounced. The state's unemployment rate has fallen to within 0.1 percent of the national rate, which is quite a development considering it stood more than 2 percentage points higher during the worst of the downturn (Chart 7). Like the nation, the decrease in South Carolina's unemployment rate has been accompanied by a decrease in the labor force. In fact, of the 40 counties in the state that showed year-over-year declines in their unemployment rates in November, 34 saw an accompanying decrease in labor force participation. While the decline in unemployment is a welcome development, lower labor force participation will ultimately hamper longer-term growth potential by limiting the available pool of labor. And this decline comes at a time when employers here in South Carolina and elsewhere around the country lament a dearth of qualified workers to fill open positions.

Finally, if we look past the plethora of economic indicators that can often send mixed signals about the economy and focus on the most basic of economic fundamentals, the U.S. economy (as well as South Carolina's) has a built-in speed limit. And that speed limit is a function of two factors: how fast labor inputs are increasing, and how fast productivity (our ability to produce goods and services in a given period of time) is changing. Since the beginning of 2011, employment has increased at an average of a little more than 1 percent per year, and productivity rose, on average, a little less than 1 percent. There are many factors that affect flows into the labor force (population growth, skills attainment, demographics, etc.), as well as a plethora of reasons that productivity can change (technological advances, process improvements, regulations, etc.). Most of them, however, only change slowly over time.

Admittedly, it is very difficult to predict changes in labor force participation and productivity, but there is no evidence to suggest that there is something on the near-term horizon that will materially alter the national dynamics that have weighed on economic growth over the past three years. Thus, the most likely outcome for 2014 is a continuation of recent trends—a little more than 2 percent GDP growth nationally accompanied by modest improvements in payroll employment and the unemployment rate. The outlook for South Carolina's economy is a little better than average due to its low cost of doing business, positive migration trends, and recent high-profile successes (such as attracting Boeing, Bridgestone, Continental, etc.), but it too will be hamstrung by the same forces that are adversely affecting the national economy.

Once again, I'd like to thank the committee for inviting me to testify today.

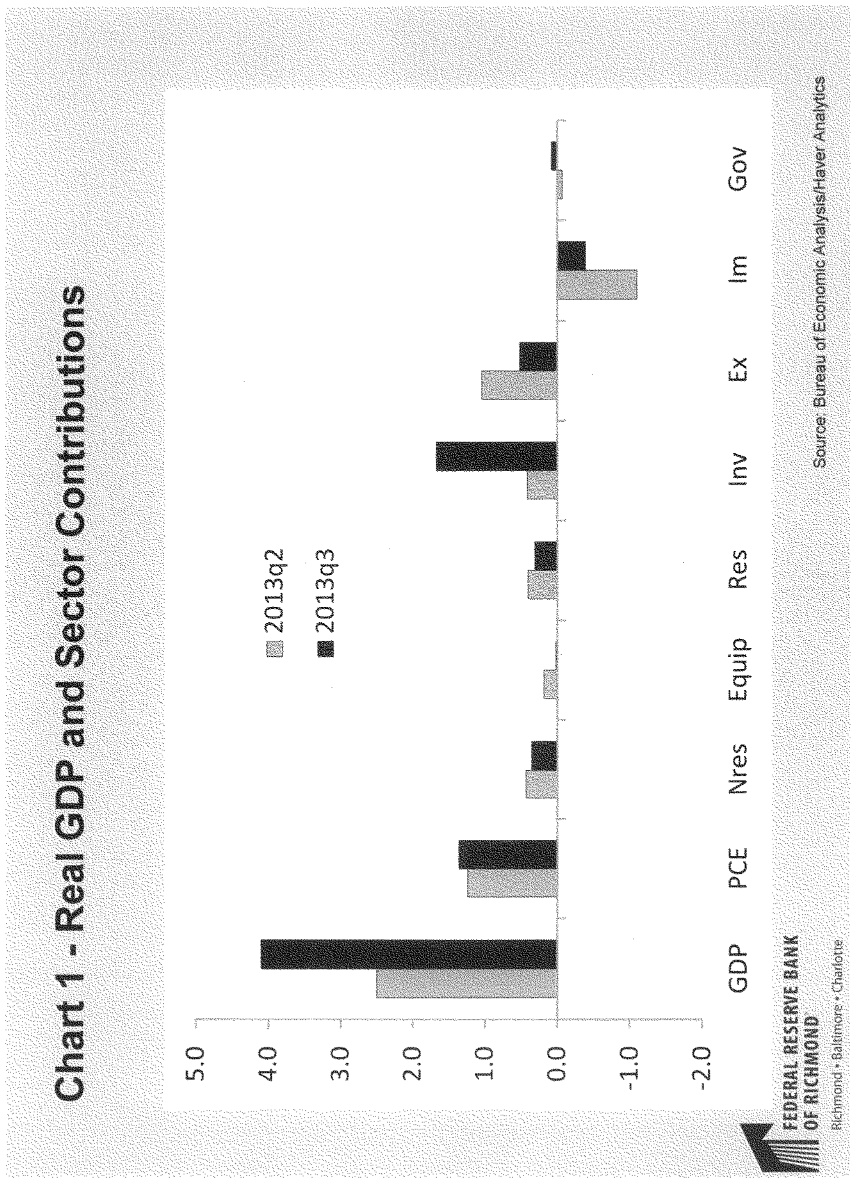
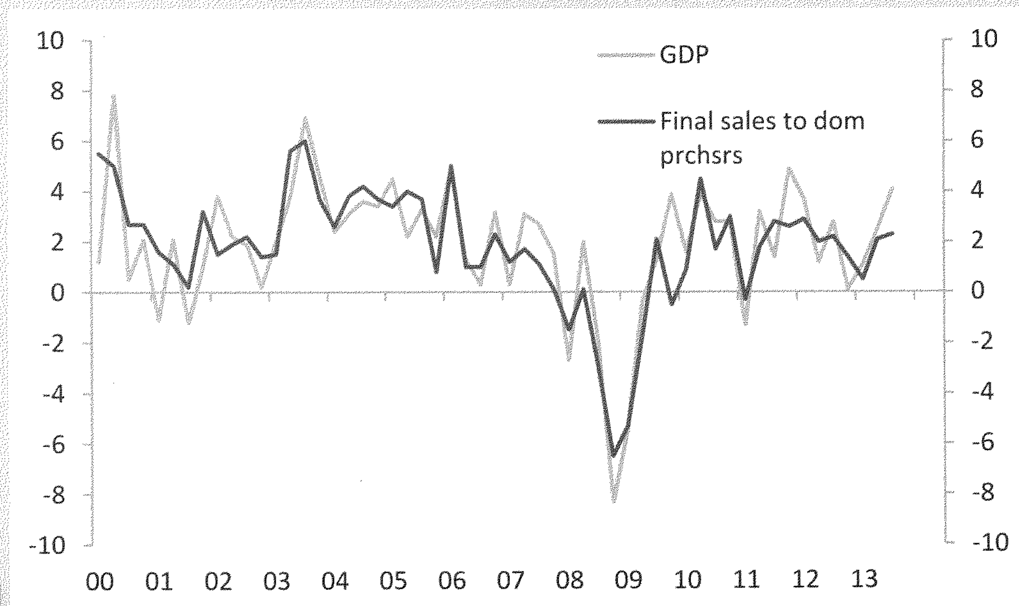


Chart 1 - Real GDP and Sector Contributions
5.0
4.0
3.0
2.0
1.0
0.0
-1.0
-2.0
2013q2
2013q3
GDP
PCE
Nres
Equip
Res
Inv
Ex
Im
Gov
Source: Bureau of Economic Analysis/Haver Analytics
FEDERAL RESERVE BANK OF RICHMOND
Richmond • Baltimore • Charlotte

Chart 2 – Real GDP and Domestic Sales



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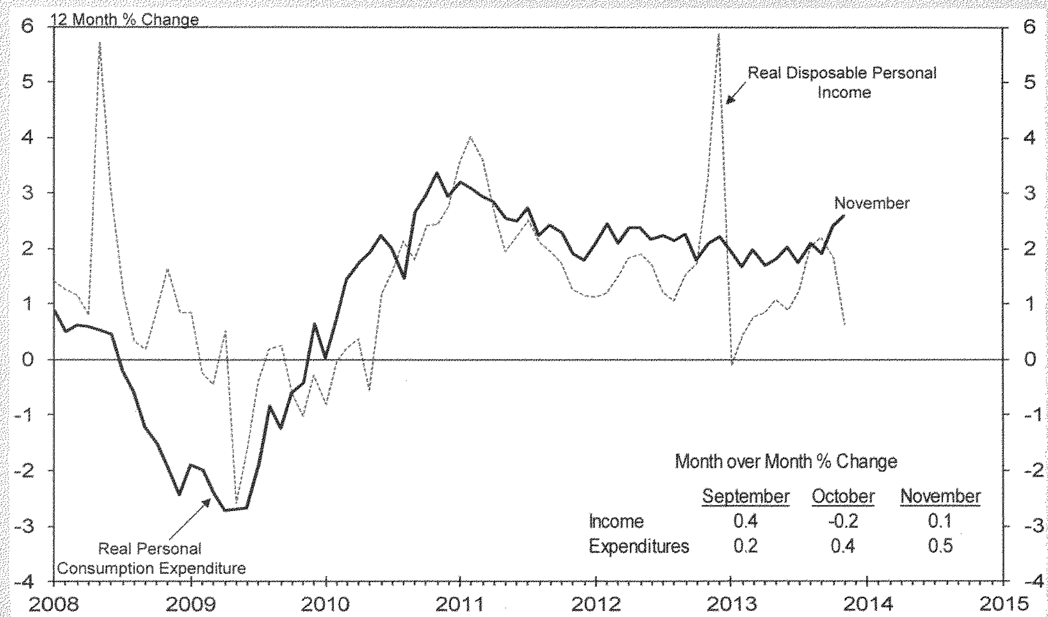
Source: Bureau of Economic Analysis/Haver Analytics

Chart 3 - Disposable Personal Income & Expenditures



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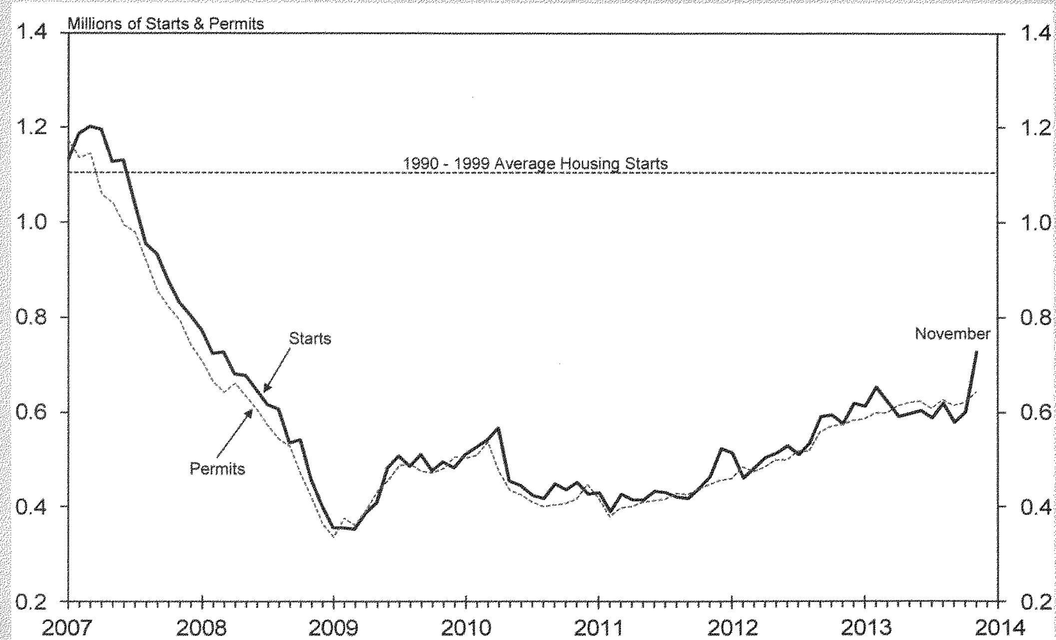
Source: Bureau of Economic Analysis/Haver Analytics

Chart 4 - Private Single-Family Starts & Permits



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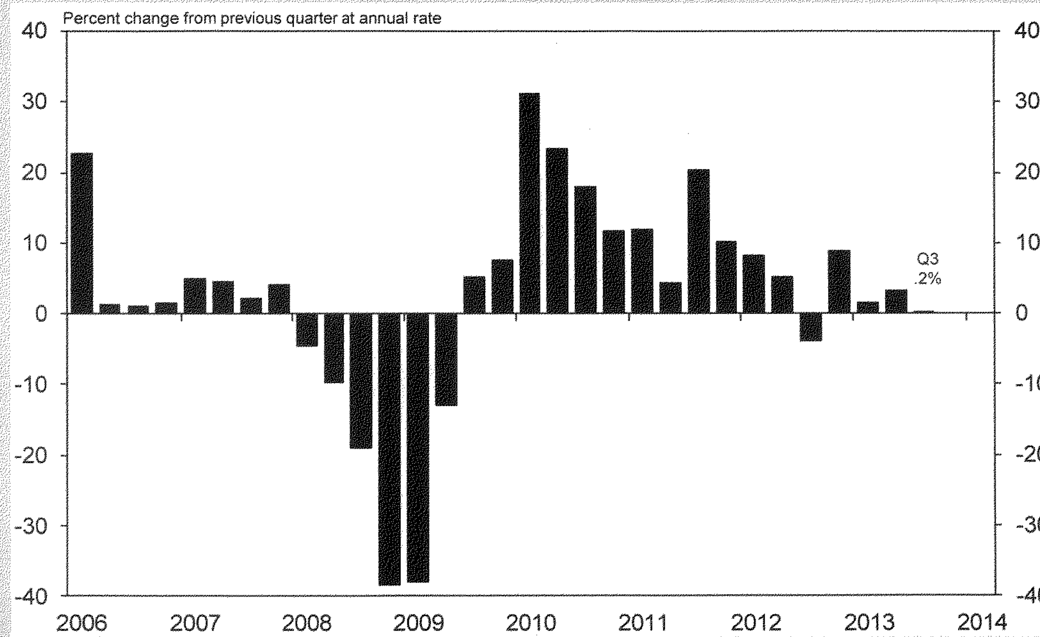
Source: Census Bureau/Haver Analytics

Chart 5 - Real Investment in Equipment



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Source: Bureau of Economic Analysis/Haver Analytics

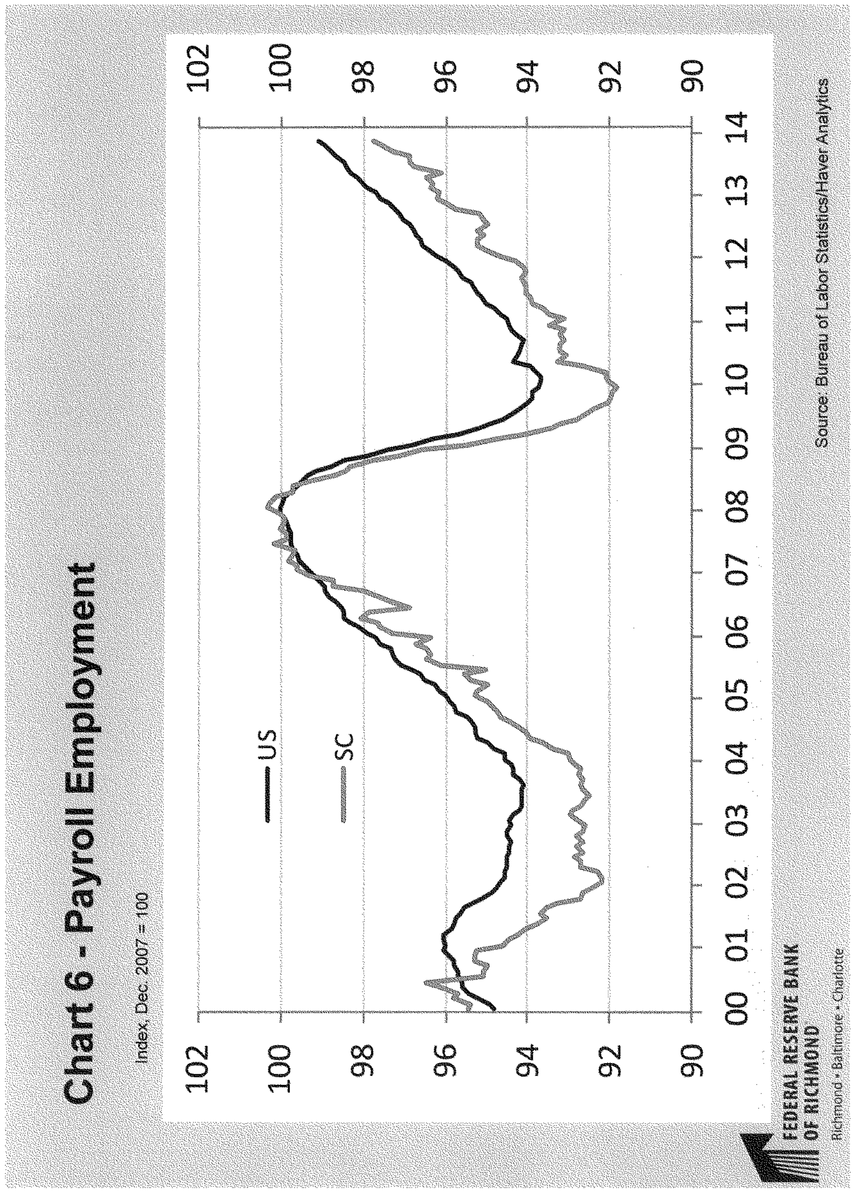

Chart 6 - Payroll Employment
Index, Dec. 2007 = 100
US
SC
102
100
98
96
94
92
90
00 01 02 03 04 05 06 07 08 09 10 11 12 13 14
Source: Bureau of Labor Statistics/Haver Analytics
FEDERAL RESERVE BANK OF RICHMOND
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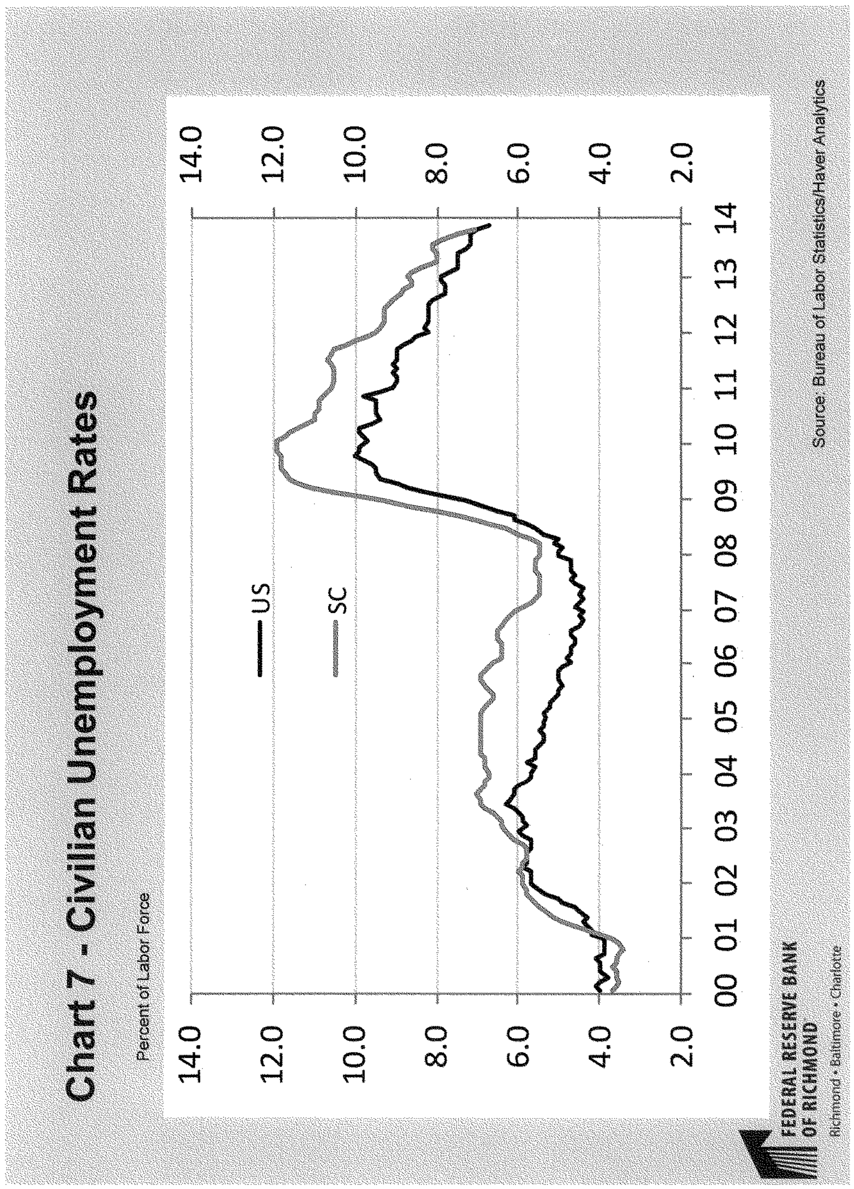
Chart 7 - Civilian Unemployment Rates
Percent of Labor Force
14.0
12.0
10.0
8.0
6.0
4.0
2.0
00 01 02 03 04 05 06 07 08 09 10 11 12 13 14
US
SC
Source: Bureau of Labor Statistics/Haver Analytics
FEDERAL RESERVE BANK OF RICHMOND
Richmond • Baltimore • Charlotte

Nikki R. Haley
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Robert M. Hitt III
Secretary

South Carolina Department of Commerce
Small Business Testimony
before the
Subcommittee on Economic Growth, Tax, and Capital Access
Committee on Small Business
U.S. House of Representatives
Congress of the United States

January 24, 2014
Dillon, South Carolina

Preamble

The South Carolina Department of Commerce respects and appreciates the Subcommittee's interest in small business in rural America, and in South Carolina. We would like to thank Congressman Rice and the other Subcommittee members, and their staff, for this opportunity.

The South Carolina Department of Commerce is heavily engaged in support of small business in South Carolina, and in rural South Carolina. We recognize the impact of over 280,000 non-employer firms, and over 90,000 employer firms with less than 100 employees, employing half of all the South Carolina private sector labor force. Moreover, the 2010 census showed that thirty-three percent (33%) of South Carolinians live in a rural area. Small business is an integral part of South Carolina's economy in employment, wages, investment and revenue, and equally so for rural South Carolina.

The SC Department of Commerce (Commerce) in recent years has been increasingly focused on a broader range of economic development opportunities, including and especially small business support. In 2004 the Commerce created the *Small Business Ombudsman's Office,* and then in 2011 created the full *Small Business and Rural Development Division.* As Commerce has instituted initiatives aimed at supporting small business growth, the Agency has remained cognizant of *rural* small business impacts and outreach.

South Carolina Department of Commerce and State Initiatives

The following initiatives typify the Agency's interest in and commitment to the start-up, sustainment, and growth of small business in South Carolina, and in rural South Carolina. They are provided in the spirit of sharing with other communities and states, practices which may benefit small businesses in their rural communities. The SC Department of Commerce is pleased to provide additional specific information to any local, state, regional or national entity interested in furthering support for small business.

The Commerce division of *Small Business and Rural Development* is actively engaged in a variety of support, from direct one-on-one counsel, to regional and state-wide small business events, to web related outreach and resource consolidation.

Commerce begins by looking at the structural elements for small business success. These are the same for small businesses in rural areas, and apply to the diversity in small business, whether ethnicity, gender, veteran, etc. These elements are:

- General business planning
- New business, marketing and business development
- Financing
- Operations (product/process and administrative)
- Workforce development
- Regulations, permits and licenses

The work carried on by the Agency seeks to connect programmatic support for each of these elements with the small business community.

Small Business Advisory Council

Commerce established the Small Business Advisory Council to improve and coordinate statewide support and resources for small business. The Council provides insights on the needs of small business, and coordinates with Commerce to focus on those needs. Members include agencies and organizations engaged in daily support of small business, making them attuned to both needs and delivery. They include:

U.S. Small Business Administration (SBA)
U.S. Department of Agriculture (USDA)
SC Small Business Development Centers (SBDC)
SC Manufacturing Extension Partnership (SCMEP)
Michelin Development Corporation
SC Department of Commerce

The Council provides diversity in geographic representation, obtaining rural perspective from the USDA, SBA and SBDCs. The council meets quarterly with the most recent focus being on the best means of connecting financing resources to small business. Offshoots being the Lender Matchmaker program and the SCBizNetwork outlined further below.

Direct Company Contact

Commerce provided through its Small Business Development staff direct assistance to inquiries from South Carolina businesses. These may be direct from the companies, or may come from economic development allies throughout the state. These inquiries cover all of the areas of special interest and support for small business.

The largest number of inquiries, one-third, represent requests for new business and supply chain assistance, while other requests relate to financing, regulatory questions and other general operations and business plan advice. Additionally, 15% of all the one-on-one requests received came from rural counties. Their needs dovetail with the larger state small business interests.

BuySC - Supplier Outreach

BuySC is a specific program which matches business opportunities for South Carolina companies, especially small businesses, through both a supplier database program and supplier outreach events. The Agency provides "buyer" companies with a strong group of potential, and diverse, suppliers. Likewise, small business "suppliers" are introduced to buyer companies as well.

BuySC program maintains a database of specific company information, from NAICS codes to company quality designations. Businesses can sign up on-line, providing information, which Commerce uses to match in-state buyer needs, as they are received. The on-

line aspect is continually publicized, encouraging businesses from across the state to sign-up. There are no fees involved.

Additionally, Commerce holds outreach sessions on behalf of buyers, whether Boeing, Continental Tire, or Wal-Mart aimed specifically at letting South Carolina small business know about the opportunities available at an OEM, their one or two company. Commerce also partners with the SBA and SC Chamber of Commerce in helping product a Salute to Small Business, a matchmaking event for large and small businesses, associated with the SBA's Small Business Person of the Year Awards.

These buyer needs might be a service, part, raw material or process. The outreach events are widely advertised, including to rural counties and diversity-oriented organizations. Commerce has held or directly supported 10 of these larger events over the last three years, involving over 1,000 small businesses.

Commerce also works with local communities to help connect public project spending with sub-contractors and suppliers. After a penny sales tax increase was voted in, Commerce lead the effort in rural Marion County to have the project director and county planner host an open solicitation information meeting inviting all area contractors and sub-contractors to hear the details on each of 12 projects. The goal was to make sure local contractors and suppliers had an opportunity to compete for the project.

Financing - Lender Matchmaker Events/Capital Access

In cooperation with local economic development offices, local chambers and other business organization, and the Federal Reserve - Richmond, Commerce has spearheaded seven Lender Matchmaker events across the state. These events consist of *lender* panels, *peer to peer* panels, and a speed-dating session for small businesses and lenders. The object is to educate businesses on lender requirements and opportunities, and then allow for one-on-one meetings between lenders and businesses. The goal is for businesses to find the financial information, and the financing, they need to start and/or grow their businesses.

This idea started with the Small Business Advisory Council, and has included participation from 184 small businesses, 166 banks and 104 service providers. Twenty-one (21) rural counties were included in the seven Lender Matchmaker events. The Federal Reserve is conducting a longitudinal study on several of the sessions to help determine who has obtained information that forwarded the company's business plan, or lead to success in obtaining financing. Exit surveys of both lenders and small businesses yielded an average 4.7 satisfaction score out of a possible 5 - with 5 being "Most Useful".

More Lender Matchmaker events are planned for 2014 and continuing.

SCBizNetwork.com

Access to useful small business information, especially for the rural business community, can be a challenge. To make informa-

tion more accessible Commerce created an interactive website, *SCBizNetwork*. Here businesses can find assistance in answering many of their business questions, including: business planning, financing, and vendor and supplier development.

The *SCBizNetwork* site contains a "Resource Guide" of all state business resources, e.g. marketing assistance, finance, business planning, and workforce support. The site also hosts a "Resource Finder", where the user can self-select criteria of interest and the program prints out a road map of resources that can address the need. For example a business might be looking for a $150,000 loan, and they want to see who the potential finance providers are with a 50 mile radius; the Resource Finder provides those leads.

SCBizNetwork also hosts a calendar of small business events; 512 small business related events were posted in 2012. The site also houses the BuySC supplier/buyer surveys, a Question and Answer section for on-line business questions, and a link to the state's Small Business Regulatory Review Committee. The site has received an average of 1,615 visits per month. The site is intentional about its availability to all South Carolina Counties, including rural South Carolina.

SC Regulatory Review Committee

In 2004, South Carolina passed the Regulatory Flexibility Act. This act established the SC Small Business Regulatory Review Committee, (supported by Commerce staff). The Committee, 11 small business persons, is dedicated to reviewing all proposed state regulations for adverse impact on small business.

While this effort is statewide in nature, the net effect is that rural small businesses benefit evenly with other small businesses, as their costs of operation are hopefully held in check, vis-à-vis, any onerous regulations where small business was not considered. The Committee has reviewed and commented on a variety of regulations, e.g. worker's compensation, in-home day care, underground storage tank regulations, and the definitions of contract labor.

In the last two and a half years the Committee has reviewed 201 proposed regulations.

State Trade and Export Promotion (STEP) Program

STEP is an SBA-originated program designed to help small businesses penetrate foreign markets with their goods and services. South Carolina successfully applied for and received SBA funds for this program in-state. In the two years of the program SC Commerce has provided export assistance to 59 small to medium sized SC companies, entering 24 different markets, resulting in $3.7 million in export sales. Fourteen Percent (14%) of the companies were located rural counties in South Carolina.

County presentations: getting the message out

Commerce is active in making local presentations to small business and community leaders about the various resources offered to small business. One of the Small Business Development staff just

completed a swing through the Northeastern part of South Carolina, a predominantly rural area of the state, over a four month period speaking to four different business and community groups on how to access specific support for their businesses.

Existing Industry Visitation

Part of the work of the Small Business and Rural Development division includes an existing industry call program. Commerce representatives call on manufacturers across the state, primarily larger employers, looking for expansion opportunities and problems and concerns. The state wants to address both very quickly to minimize a lay-off situation, or to provide comprehensive support for an expansion opportunity.

Existing Industry staff has called on 47 companies in 20 rural counties since the program's inception in 2012. This is 28% of all existing industry visits, in almost half of the state's counties. These companies, many larger than 100 employees provide vital support for the small business infrastructure in a rural community.

Emergency Support Function (ESF) 24 - Business and Industry

Commerce coordinates ESF-24, helping coordinate public and private sector response in support of the business community in case of an emergency or natural disaster. One area of focus is getting assistance to small businesses as quickly as possible, as the closure rate for adversely affected small businesses following a disaster is high.

Commerce spearheaded business support for a downtown fire that destroyed fire eight structures, affecting 22 small businesses in coastal Georgetown County. Insurance, finance, local government, the SBA and the Small Business Development Centers were all involved in assistance. While not a rural county per se, this is the type of service available to urban and rural communities.

Community Development in Rural South Carolina

The work of Community Development can have a direct impact on small business. Small businesses in rural communities quickly feel both plant lay-offs closures and new economic development projects that come to fruition.

Product Development

The Dept. of Commerce has been involved in product development for years providing financial support for speculative buildings, industrial park development and even redevelopment of rural downtowns.

During the first six months of 2014 the Rural Product Development Initiative will be launched. $2 million has been designated from the state's Rural Infrastructure Fund for this competitive grant program. Eligible rural counties may apply for up to $350,000 to support the development of speculative buildings (at least 50,000 sq. ft. in size), industrial park up-

grades or pad-ready sites. Counties developing 100,000 sq. ft. speculative buildings may apply for up to $500,000.

Site Certification

The Dept. of Commerce provides financial support to rural communities to help offset the costs associated with site certification. South Carolina's site certification program has been recognized by Area Development magazine as the #1 site certification program in the country.

Education

Commerce provides two educational opportunities for rural leaders and those involved in rural economic development, the South Carolina Rural Summit (160 community leaders), and the South Carolina Economic Development Institute (60 community and ally leaders will attend the 2014 session). Both include components which cover the importance of small business to the rural community, and discuss ways to support those businesses locally.

Partners

South Carolina Small Business Development Centers (SBDC)

The SC SBDC is recognized as the gateway provider of small business assistance driving entrepreneurial growth and success. Commerce considers the SBDC to be on the front line of technical face to face business assistance, helping companies with everything from QuickBooks to government procurement. The SBDC operates through 17 offices across South Carolina, covering every area of the state. The SBDC advises companies on business planning, new markets, and financing and cashflow, among other areas. The SBDC can also offer advice on exporting and technology commercialization. Commerce provides a grant to the SBDC, expressly to support rural initiatives and outreach within eight rural South Carolina counties: Cherokee, Chester, Lancaster, Union, Chesterfield, Darlington, Lee and Williamsburg. www.scsbdc.com

SC Business One Stop (SCBOS)

SCBOS is a true One Stop for starting a business. In addition to getting general reference information on starting and growing a business, the site's unique feature is the ability to get tax payer ID numbers, file for LLC incorporation, and conduct various other online filings with the Department of Revenue, Department of Health and Environmental Control, Department of Employment and Workforce (unemployment insurance tax filings), and others.

The purpose behind SCBOS is to allow persons to deal with a variety of permits and licenses without having to travel from agency to agency. A small business can effectively get started and operate from any rural setting in South Carolina, all online. Commerce is a part of the SCBOS Executive Advisory Board. www.scbod.sc.gov.

SC Manufacturing Extension Partnership (SCMEP)

The SCMEP is a 501 C 3 chartered to provide technical production and process support to South Carolina's Small and mid-sized business community, focused primarily on manufacturing. (There is one in about every state.) They operate under the auspices of NIST (National Institute of Standards and Technology), and are generally funded a third state, one third federal and one-third from fees. Manufacturers with fewer than 100 employees are one of the SCMEP's prime targets, which make them available to all of rural South Carolina. The SCMEP is a very effective organization as a positive change agent. (A Small Business and Rural Development staff member serves on the SCMEP Board.)

Areas for Federal Consideration

Several suggestions are offered for federal consideration that could have positive benefit for rural small business.

Support for the SBDCs and SCMEP

Greater recognition and support of the SBDCs and SCMEP should be considered for these institutions. They provide front-line support for small businesses, and have comprehensive offerings for clients from specific issues like how to obtain a federal contract (SBDC), or training in LEAN manufacturing (SCMEP); to more general, but equally important, providing business plan advice (SBDC), or a full business competitiveness review (SCMEP). More resource allocation could be made to both organizations in direct support of business in rural counties. These organizations have the opportunity to provide needed technical advice to small business in rural communities.

Regulatory Burden

The regulatory burden on all small businesses is significant; all federal agencies should continue to examine their regulations for adverse impact on small business. The frequent unintended consequence of regulations can affect rural small business in particular. As an example, when a regulation or law is made requiring all real estate appraisers to have a four year bachelor's degree, this requirement by default can put those in rural communities at a disadvantage. The candidate must now have the four year degree. Those who enter the profession are also most likely to become small businesses themselves. This example illustrates the impact changes to professional certification can have on an industry and group of professionals, and their opportunity to start a business or break into a profession.

Other regulations that impact small business often stem from the reporting requirements of agencies like the EPA or OSHA. No one wants worker safety or the environment to be compromised. However, comprehensive review of all proposed regulations can serve small business well.

S C M E P
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

Helping South Carolina Companies Grow

South Carolina Manufacturing Extension Partnership (SCMEP)

Supporting over 4,000 small to medium size manufacturers in South Carolina

Who is SCMEP?

SCMEP was established in 1989 as one of the three original extension centers under the Department of Commerce's NIST MEP Program. The University of South Carolina originally managed the Center, then named Southeast Manufacturing Technology Center, or SMTC. A non-profit organization was retained to manage the Center in 1992 and became an independent organization in 1996. Today, SCMEP is an independent, non-profit 501c3 organization with its own charter and independent fiduciary Board of Directors made up of SC manufacturing company owners and senior executives, and representatives from the state technical colleges, research universities and Department of Commerce.

Methodology

- SCMEP's major areas of focus are: continuous improvement, workforce development, technology acceleration, supply chain development and sustainability.
- SCMEP's approach enables our Manufacturing Specialists to use constraint theory to quickly identify bottle necks in companies' operations, regardless of where those limiting factors occur. Focusing on these limiting factors permits rapid improvement and shortens the "time-to-value" of projects – delivering maximum impact in the minimum time possible.
- SCMEP works with companies willing to invest in themselves and who commit the necessary time, money and human resources to improve their businesses. Through SCMEP's role as a facilitator in the engagement process, our Manufacturing Specialists coach clients as strategic "professional business advisors." Company personnel are trained in techniques and supplied with tools that allow them to develop the skills required to expand the company's capabilities and improve its performance. The goal is to internalize these changes and make them self-sustaining so they become standard operating procedure enabling the company to work independently instead of becoming consultant dependent.

Accountability

- Since 1996, NIST has used an independent third party organization to conduct surveys of MEP client companies collecting data on the economic "impact" - measured in dollars earned, saved and invested - of the centers' services provided.
- These surveys provide objective, factual data that NIST uses to evaluate all MEP centers through a competitive process where funding is contingent upon successful annual reviews of their impact.
- SCMEP is advised by a fiduciary Board of Directors.

SCMEP Client Results 2012

New and Retained Sales	$170.0 MM
Cost Savings	$14.4 MM
Capital Investment	$50.4 MM
Jobs Created/Retained	1,792
Total Bottom Line Impact for Clients	**$234.8 MM**

These numbers are reported by our clients though surveys conducted by The National Institute of Standards and Technology (NIST) using an independent survey firm.

Why We Are Different: With SCMEP you get the benefits of:

- Premium consulting services at competitive rates (starting with the no-cost **Competitiveness Review**)
- Customized services adapted to meet your company's individual needs
- Assets of the national MEP network and federal agencies
- Statewide contacts, relationships, and networking
- Diverse knowledge and practices of third party experts
- Support from Manufacturing Specialists who live and work locally
- A large & diverse network of state-wide resources including universities, technical colleges, SCRA and SCDoC
- A merit-based (vs. profit driven) organization that is measured independently
- An approach based on obtaining results quickly while developing competencies to raise long-term performance

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U.S. House of Representatives Committee on Small Business
January 24, 2014

Founded by the Community Foundation for a Better Hartsville ("CFBH") and located in downtown Hartsville, The Duke Energy Center for Innovation ("DECI") is designed to support new technology company formation and development. Representing a unique private-public collaboration, the City of Hartsville and others, are committed to linking innovators to business development resources and seed financing and to providing support services through Clemson University's Regional Entrepreneurial Development Center to commercialize emerging-technology products and services. Components of the DECI structure include a community owned and operated storefront incubator, community consultant training provided by Clemson, use in partnership of Clemson's Regional Entrepreneurial Development Center to offer high levels of professional support, and a web-based service network provided by Clemson. This is all done via a hybrid internet—consultant model designed for non-metro areas across the state of South Carolina.

Leaders from the City of Hartsville learned of the program from counterparts in Bluffton, S.C., which had started a similar technology incubator twelve months earlier. They learned there would be four other communities identified by Clemson to locate regional technology centers. The Community Foundation was quickly convinced that this economic development tool would be ideally suited to the Hartsville community. The Community Foundation created a separate advisory board for the DECI, which largely functions as a standing-committee of the CFBH.

In addition to winning support from another local foundation, The Byerly Foundation, and the Duke Energy Foundation, who, sharing our vision for economic development for Hartsville and the surrounding community and are serving as major partners in the DECI, numerous individual and institutional stakeholders including Sonoco, Coker College, Florence Darlington Technical College, The Governors School for Science and Mathematics, and downtown business leaders are playing important, collaborating roles in the project's success.

The Duke Energy Center for Innovation is a part of the Clemson Technology Villages Pilot Program. The Clemson Technology Village program is a hybrid internet-consultant program designed to support new technology company formation and development in non-metropolitan areas. Clemson developed this pilot program after eight years of research and launched its first Center in Bluffton, SC. The Hartsville site is one of three currently operating centers across the state of South Carolina. The third location is located in Rock Hill, South Carolina. There are plans for two additional centers to be located in other areas in South Carolina, bringing the number of centers to five across the state.

The Technology Village hybrid model is set up in away to deter technology start up challenges in non-urban communities. When we look at the state of South Carolina, we can fine incubator programs focused on technology start-ups in the three densely popu-

lated areas: Columbia, Charleston, and Greenville/Spartanburg. This program sets out to overcome obstacles of funding, access to services and technology, and lack of confidence and networks. A typical budget for a Technology Village Center site is projected to operate at an annual budget of $200,000. This is a fraction of the amount that most centers use in larger urban areas. The reduced cost, access to service and technologies, and increased credibility can be attributed to the partnership with Clemson University and the hybrid model of sharing resources using technology among all the centers at Clemson's Regional Entrepreneurial Development Center.

Each center operates independently from one another finding their own funding sources, hiring their own director and recruiting entrepreneurs. It is to be made clear that each center is owned and operated by the community it supports. These centers are not Clemson run programs. However, Clemson University plays a vital role in the vitality of each center. This is a Clemson pilot program that the Community Foundation for a Better Hartsville pays to take part in for three years. With this partnership members of the community and the director of DECI received a twelve week training course "Building a Community Technology-Oriented Incubator Program" that included course materials relevant to building, managing, and maintaining a community incubator program. Course sections included: technology acquisition and evaluation, conducting a detailed analysis and evaluation of patents, technologies, and markets, strategy development, developing a service cost model and product development, developing a pro forma, developing a business and operation plan, company staffing, formation and building a board, seed funding strategies, communication skills for an investor presentation, and future partnerships.

As a partner with Clemson, the DECI has access to the Clemson Regional Entrepreneurship Development Center and its staff and students. These MBA students and their director provide resources needed to help entrepreneurs succeed within their business development. Some of the resources they provide in collaboration with the Duke Energy Center for Innovation include: entrepreneur/company assessment and evaluation, new company development plan and schedule, intellectual property acquisition, strategy development, marketing research, operational plan development, business plan development, technical resources, special university services or studies, advisory committee access, staffing assistance, corporate relationships, seed/angel funding, company formation, legal and accounting services, innovation network access, and additional local and state support services. These services are offered in a collaborative effort with Clemson University's staff, students, the director, and advisory council of DECI.

The incubator is currently working with five entrepreneurs: Houston Penny III, Alan Hubbard, Jonathan Britt, Shernard Robinson and Mark Nankervis, Mr. Hubbard, who introduced himself at the Center's first idea night event, has built a prototype communication device to support game trapping. His system can notify trappers when their game traps close. This idea, which emerged as a solution to challenges associated with controlling populations of

feral hogs in the southeast, may have multiple applications in the field of animal conservation and trapping.

Current efforts involve working with partners at Clemson University to complete the marketing analysis and with Southeastern Institute for Manufacturing Technology, and Florence Darlington Technical College to build a new, more market-ready prototype.

Maryland native Houston Penny III works as a nuclear technician charged with overseeing RNP Reactor Services at the Duke Energy Robinson Plant. He is in the process of developing a software application to improve inventory control of materials that are used in and out of foreign material exclusion areas of the plant. This application will minimize risk and has the potential to save members of this highly regulated industry millions of dollars. Earlier this month Penny recently received unofficial news that his proposal for $300,000 seed financing has been approved. If developments proceed as he expects, Houston will rent or buy a building downtown from which he will operate his new business. In addition, he is developing plans to take advantage of other business opportunities to which the new software may be applied. He expects his business to create two jobs in 2014 and four more in 2015.

Jonathan Britt, a senior at Coker College, has developed a web-based buying and selling platform that is linked with the social media account Facebook. He and a group of his friends have built a web platform over the past three months. The incubator is providing assistance with recruiting coders as well as helping with the development of market research, cost models, the business plan and practical marketing strategy. The site, sailtrail.org is live in bet format and is currently being tested with students at Coker College.

Finally, the Center's most recent clients are the very early stages of developing their businesses. Shernard Robinson is a Hartsville native living both here and in Columbia. He has recently returned from New York where he studied at NYU. His technology is a software/web platform for aspiring urban gospel artists and speakers. The Center is supporting Mr. Robinson's efforts to develop a feasibility study.

Mark Nankervis is a Coker senior working with his two uncles who have a patented technology in the Midwest Region of the United States. Nankervis Enterprises has a pond sediment reduction technology first built for cattle feed lots. Since its invention, the device has also been used for pig lots, erosion control and sediment reduction applications. Patterned with Clemson Agriculture Department and research team the Center is helping to evaluate opportunities within the Pee Dee Region and across the Southeast Region of the United States.

In addition to working directly with local entrepreneurs, the Center is engaged in a number of outreach activities designed to reveal and cultivate relationships with future entrepreneurial tenants. For example, the Center created an idea competition, which was open to students and faculty at Coker, Florence Darlington Technical College, and the GSSM. Although the program was not embraced as fully as had been hoped, we will review the program,

looking for ways to improve it, and will likely expand it in 2014 to include students and faculty at Hartville High School.

Beyond direct outreach efforts that designed to reach regional educational groups, the center has developed and presented formal presentations for numerous civic and economic development groups throughout the Pee Dee Region.

Beginning in 2014, the Center will being monthly after-hours learning sessions open to the public and encourage high school and college students to attend business development workshops to discuss timely topics such as entrepreneurship, patent research, branding, advertising, Google Ad Words, social media, etc. Another idea under consideration involves doing more individual interactive learning sessions with high school and college classrooms. We want to encourage students to take advantage of the Center as much as possible and invite faculty to use their resources and expertise to develop new technology-based ideas with potential to grow in Hartsville.

As a specific example of outreach activities planned for January 2014, at 8:30 a.m., Wednesday, January 22, the Center will host a public breakfast reception with Bruce McIndoe, CEO and founder of iJet International, a global risk intelligence company that began as an IT-based travel service focused on providing security support for corporate executives.

The Factors most critical to the success of the Duke Center for Innovation include political and administrative support, financial backing, community buy-in, and a knowledge/innovation pool. Since its inception in June 2013, the Center has seen tremendous success, recruiting five entrepreneurs to the incubator. The technologies being developed by these innovators have tremendous application potential, and if this potential is realized, the region will benefit from the creation of new jobs. The city administration has demonstrated their support of this endeavor by providing the building and community resources needed to help it succeed. The community has illustrated tremendous buy-in through their continued participation in public education outreach initiatives. Local businesses provide mentoring opportunities for burgeoning entrepreneurs hosted by the Center, and in turn will benefit from the draw of high-skilled workers that high-tech start-ups bring. Educational institutions are finding partnerships with the Center mutually beneficial, as the Center allows for engaged learning opportunities beyond the classroom and an outlet for students to further hone crucial career skills. The Center benefits from the passion, creativity, and technical savvy of local students. Continued success will be realized through healthy relationships with all of these agencies and more. Successful programs to fund the top technology companies that come out of our center and sister centers will be crucial for a constant full pipeline of new technology start-ups in the State of South Carolina.

After year one, our goal in Hartsville remains the same, supporting the Pee Dee region as a technology accelerator/business incubator program providing the business development resources, support services, and network needed to have a greater success

rate for new technology companies. We then believe these companies will remain in the Pee Dee region supporting one another and growing to offer more jobs, recruiting the talent needed to support the high-tech fields they represent. Ultimately, with success we project to change the image in our region and across the state of South Carolina to an innovative technology hub of activity. Our goal is to graduate three to five new start-up companies a year after our year one. We are still within the first year and will continue to collect data to develop future impact studies to identify how successful this program is moving forward.

January 24, 2014

Testimony of

Jeff McKay

Before the

Subcommittee on Economic Growth, Tax and Capital Access

of the

Committee on Small Business

United States House of Representatives

Getting Rural America Back To Work:

Solutions to Unemployment

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January 24, 2014

Chairman Rice and members of the Committee, my name is Jeff McKay. I am the executive director of the North Eastern Strategic Alliance (NESA). NESA is a regional economic development alliance that is constituted by all eight counties of the Seventh Congressional District, with the addition of Williamsburg County.

I am pleased to be sharing the experiences I've had working with rural businesses. Working with our member counties, businessmen and women and entrepreneurs throughout our region, I and the staff of NESA have the opportunity to hear many of the needs and wants of the business community.

In my testimony, I would like to make three key points:

- **There is a need for mentoring opportunities that would assist entrepreneurs with navigating the pitfalls and challenges of starting a new business**
- **Access to capital for small businesses and entrepreneurs in rural areas is vital to the economic health of our region**
- **The continuing improvement of our region's infrastructure, including interstates, ports and broadband, presents a crucial fulcrum on which rural small businesses balance**

Providing mentoring and backing for new business and entrepreneurs

Currently, there is a need for an outlet whereby individuals seeking to start a new business can consult with entrepreneurs who have a need for business guidance from experienced individuals that have been through the process and challenges of creating a profitable venture. Rural America is desperately in need of an apparatus that allows for the knowledge and wisdom of experienced business people and entrepreneurs to be imparted to a younger generation.

Similar to Teach for America—a non-profit organization that is focused on providing high quality teachers in rural and low-income areas—business-oriented mentoring programs could be a vital tool in improving rural job growth opportunities.

An effort such as this would allow individuals seeking to start a new business to consult with experienced entrepreneurs who have an understanding of the business world and can share their experiences with these individuals on common business issues such as healthcare, understanding how a business is taxed, the process of creating a long-term business plan, etc. which can sometimes overwhelm a new business owner. This would allow the entrepreneurs to focus on the management of their business with the insight and counsel of an experienced professional. A lynchpin of this endeavor could rest in the initiative's flexibility to accommodate the needs of businesses within diverse environments throughout our region and other region's throughout the nation.

Improving access to capital

Access to capital for rural businesses is also an issue that needs to be addressed. Small, rural businesses will struggle with access to credit, which affects their ability to grow. Sometimes it's a small amount of money for minor facility improvements or equipment purchases. If a rural initiative were established to provide low level loans, it would be a great asset to rural businesses.

In rural areas especially, current practices and economic conditions now make it difficult for entrepreneurs to access capital. One idea to help with this situation could be the possibility of the creation of a rural capital access program or a revolving loan program with terms and conditions that are simple in nature and more easily accessible in rural areas.

Continued improvement of our region's infrastructure

One of the most pressing needs our region has in terms of strengthening the rural workforce and creating a better business climate is an improved infrastructure. Regarding our regions infrastructure, interstate, ports and broadband access all must continue to be improved to create a more high quality business environment.

I-73, a planned interstate that traverses our region, is a key to future growth within our region and continued support and passage of the Federal Highway Reauthorization Bill will be important to the road's future. The completion of the South Carolina portion of I-73 will allow the region to continue to grow unmitigated by travel and distribution constraints and will provide a greater level of connectivity to the rest of the nation.

According to a report by Chmura Economics, I-73 can provide $120.8 million in annual cost savings for current businesses as a result of increased travel efficiency and the annual economic impacts of the road are estimated at $2 billion and will sustain 22,347 jobs in South Carolina in 2030 and beyond.

Additionally, a study by Coastal Carolina University concluded I-73 would spurn the creation of 7,700 jobs, along with an injection of $170 million into the local economies within the path of the road during the proposed five years of construction.

The Port of Georgetown should also be dredged in order to sustain a strong manufacturing base in that part of the state. This is

a project of great significance to our region as it will provide an additional selling point to potential businesses considering locating within our area.

This project was moved much closer to reality in October as Congressman Rice assisted mightily with the passage of the Water Resources Reform and Development act, which allowed for the allocation of federal funding for dredging of the Port of Georgetown.

The impact, both planned and unplanned, that the dredging of the Port of Charleston will have on South Carolina and the entire eastern half of the U.S. stands to be immense. There are many companies that are currently using the port and that number will only grow with the access that dredging brings. Companies may relocate if they cannot take advantage of post-Panamax shipping opportunities via the Port of Charleston. Money for dredging is imperative to assure South Carolina's place as a home to a major east coast port.

The region's broadband Internet access must continue to be improved as well to ensure continued economic growth. Currently, 26 million Americans living in rural areas are without high-speed Internet access. This restricts their ability to find jobs, customers within and outside of their market and research information to better their business.

The federal government could assist the dissemination of broadband Internet access by working with telecommunications providers to either incentivize the creation of rural broadband networks and work with the providers to ensure small communities are covered or work with state and local governments to ease the restrictions on publically-owned broadband networks and assist with the funding of these capital projects.

In many cases, broadband access could allow for greater job growth within rural communities as well. Work-from-home opportunities abound in today's workforce and many call centers are focusing on virtual call centers as a more efficient means of reaching their workforce without having to procure a building, paying the subsequent cost of the facility or many of the other hindrances to creating a call center.

Greater broadband access in rural areas would create a more streamlined process for potential employees as they search for jobs, as well as making it easier for businesses to find qualified employees.

Conclusion

The need for continued support along these three areas is vital to our region's continued economic growth. The creation of mentoring opportunities that could assist new business owners in navigating the issues of running a business is crucial. Currently, there are a number of organizations that are able to help businesses during the infantile phases of the process, but there is a distinct need to create a flexible apparatus that's able to help guide entrepreneurs through the common issues and pitfalls of running a business.

Access to capital, especially for small-rural businesses must be made available. Currently, regulations, both new and revised, hinder the loan process for many small banks, leaving only the larger banks as a source for capital. New and innovative programs in rural areas could spur new business opportunities.

The continued support of the improvement the area's infrastructure will also help in improving the economic standing of our region's rural areas. Within our region, the completion of I-73, the dredging of the Georgetown and Charleston ports along with the improved of the dearth of broadband access will make continued economic growth possible.

Thank you for the opportunity to speak.

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